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SCORP TAX SAVINGS

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Product Overview

As a self-employed individual or small business owner, one of the smartest financial decisions you can make is electing to be taxed as an S Corporation (S Corp). This guide will walk you through the benefits, tax savings, and key considerations of becoming an S Corp.



1. What is an S Corporation?

An S Corporation is not a type of business entity, but a tax classification that a corporation or LLC can elect with the IRS. Once approved, the business is treated as a pass-through entity for tax purposes, avoiding double taxation and offering several advantages over standard sole proprietorships or LLCs.

2. Key Tax Benefits of an S Corp

- **Avoid Self-Employment Tax on Distributions:** As a sole proprietor or single-member LLC, you're subject to a 15.3% self-employment tax on all net earnings. With an S Corp, you pay yourself a "reasonable salary" subject to payroll taxes, but distributions (profits beyond your salary) are not subject to self-employment tax.
- **Pass-Through Taxation:** Profits and losses pass through to the owner's personal tax return, avoiding corporate-level taxes.
- **Potentially Lower Audit Risk:** Sole proprietors are audited more frequently than S Corps, which can provide peace of mind.

3. Example of Tax Savings

Let's say you earn \$110,000 per year:

- As a sole proprietor, you pay self-employment tax on the full \$110,000.
- As an S Corp, you pay yourself a \$60,000 salary and take \$50,000 as a distribution.
- You only pay self-employment tax on the \$60,000 salary, saving roughly \$10,500 in taxes.

4. Key Requirements to Maintain S Corp Status

- Must pay yourself a reasonable salary.
- Must file payroll and employment tax returns.
- Limited to 100 shareholders (must be individuals, not entities).
- All shareholders must be U.S. citizens or residents.

5. Costs and Responsibilities

- **Payroll Setup and Compliance:** Requires setting up payroll and withholding taxes.
- **Additional Tax Filings:** Must file IRS Form 1120-S and issue W-2s.
- **State Requirements:** Vary by state and may include additional fees or filings

6. Who Should Consider Electing S Corp Status?

- Self-employed individuals earning over \$90,000/year.
- Freelancers, consultants, and service-based professionals.
- Small business owners who want to reduce their tax liability and retain more income.

Choosing to elect S Corporation status can be a game-changer for your business finances. The potential tax savings, increased legitimacy, and reduced audit risk make it a strong option for many entrepreneurs. Always consult with our team to ensure it's the right move for your specific situation.

Please contact us to see if you can qualify for the scorp tax mitigation program, and save on your unemployment tax.

The program runs itself and we do all the work, we keep it simple and secure, and you enjoy the savings.

Tax Savings Table

| Net Income | Reasonable Salary | Amount Not Subject to SE Tax | Tax Savings (~15.3%) |
|------------|-------------------|------------------------------|----------------------|
| \$90,000 | \$50,000 | \$40,000 | \$6,120 |
| \$100,000 | \$60,000 | \$40,000 | \$6,120 |
| \$125,000 | \$70,000 | \$55,000 | \$8,415 |
| \$175,000 | \$80,000 | \$95,000 | \$14,535 |