

# WID - Should I be an LLC or S Corp

[00:00:00] Welcome. My name is Andrew Baron, and this is “Well... It Depends!” the podcast where I address financial decisions that can't be answered with a simple yes or no. In this episode, I asked the question, should I be an LLC or an S Corp? Before we begin, a short disclaimer, this is being recorded on March 26th, 2025.

The contents of this podcast are strictly for informational purposes only, and nothing said should be taken as investment, tax, or legal advice. It's important to consult with a professional before making any financial decisions as the strategies discussed. May not be suitable for you specifically getting into it.

[00:01:00] Should I be an LLC or an S Corp? Well, it depends. Let's explore the structure and tax implications behind each option and where they overlap. But first, some clarification. The question itself is wrong. This isn't a pure either-or decision. An LLC is a legal structure. While an S Corp is a tax selection, that means you can actually be both.

Let's start with LLCs. A limited liability company is simple to set up and maintain. It gives you liability protection, which means that your personal assets are generally protected from the business debts or lawsuits for tax purposes, a single member LLC is treated as a sole proprietorship and a multi-member LLC is treated as a partnership unless you choose otherwise.

[00:02:00] Now what about S Corp? S Corp stands for Subchapter S Corporation, which is a tax designation, not a legal entity. If your business qualifies, you can elect S Corp status to potentially save on self-employment taxes. Well, but how with an S Corp, you're considered both a shareholder and an employee of your business.

You must pay yourself what is considered a reasonable salary, which is subject to payroll taxes. Any remaining profits can be distributed as, as dividends, not subject to self-employment tax, which is where the tax savings come in, which sounds great, right? Well, it depends. Let's walk through some factors to consider first simplicity versus structure.

[00:03:00] If you're a solo freelancer or side hustler, sticking with an LLC may be easier. It's low cost, low maintenance, and fits well for modest income levels, but if your business is growing and generating more profit than you need to pay

yourself, the S corporation may be more efficient, though it comes with added complexity.

Then we have self-employment taxes. LLC profits flow directly into your personal tax return and are fully subject to self-employment tax. S Corps lets you split your income between salary and distribution, potentially reducing your self-employment tax bill. But the IRS requires that salary to be reasonable.

But there's some gray area about what that means. Third, we have administrative overhead. S corporations require more paperwork. You need to run payroll, file additional tax forms, and maintain corporate minutes and adhere to more formalities. This can mean hiring a payroll provider or accountant to keep it clean, so the tax savings needs to outweigh those added costs and complexity.

[00:04:00] Next we have state considerations. Some states treat S corps differently or impose extra fees such as California's franchise tax. It's important to factor in how your state handles these structures when running the math. And then we have eligibility. Not every business can't elect S-Corp status. You must be a US entity with no more than a hundred shareholders, all of whom must be individuals, not corporations or partnerships.

There also are some limitations on the type of stock that you can issue. So when does it make sense to go to an S-Corp? It often depends on two big questions. First, what kind of business are you running? I. The S Corp election tends to favor service-based businesses that don't require a lot of reinvestment, such as consultants, designers, or solo practitioners.

[00:05:00] If your business is capital intensive or relies on holding inventory, the benefits may be less clear and some industries don't align as well with S corporations. Second, what would it cost to replace you? The IRS requires that you pay yourself a reasonable salary. If you take the S-corp election, that means asking what would someone with your skills and responsibilities earn on the open market?

I. If your business earns significantly more than that figure, you might be able to pay yourself a reasonable wage and take the rest as distributions, potentially reducing your self-employment taxes. But if most of your profit is your labor, you're essentially getting paid for your time and expertise, and there may not be much left over to justify the added complexity of an S corp.

And remember with an S Corp comes added admin. You'll need to run the payroll via all the extra tax forms and often involve a bookkeeper or CPA to keep things clean. Tax savings need to be enough to offset these extra costs and effort. Let's walk through some extra scenarios. As a solo practitioner just starting out, you form an LLC and file as a solo proprietor.

[00:06:00] No extra paperwork and the taxes are simple. An establish consultant with a high net income, you convert your LLC to an S Corporation and you pay yourself a reasonable salary and distribute the rest. You add a payroll provider and tax professional to your team. You're growing a business with partners.

You might keep the LLC structure for flexibility, or you could structure a multi-member S corporation. Coordination between partners becomes important and you'll likely need professional guidance. Either way to recap. In this episode of Wealth Depends. We explored the question, should I be an LLC or an S corporation?

[00:07:00] We broke down the difference between legal structure and tax treatment. Covered the key trade-offs around complexity, compliance, and potential tax savings, and emphasized how business type and market based salary play a role in the decision. The best structure depends on your business, how much you're earning above wage, and are you comfortable with the added complexity.

So, to answer the question, should I be an LLC or an S Corp? Well... It Depends!