

February 17, 2012

**ALERT: C vs. S corporation election –
March 15 deadline for calendar-year-end companies**

C corporation owners/executives – especially those with Dec. 31 year-ends – should annually review whether their decision to operate as a C vs. an S corporation remains financially sound. The tax advantages of becoming an “S corp” can be powerful, and some previous barriers have been eliminated. Even if you have considered making an S corp election before and decided against it, you may want to consider it again. **Those with calendar year-ends who choose to elect S corp status must do so no later than March 15, 2012.**

Why consider conversion from C to S?

- *Tax-minimization on several fronts*
 - Lower tax rates: S corps pay no corporate income tax, but “pass-through” their earnings to shareholders whose tax rates may be lower.
 - Shareholders may be able to use S corporation operating losses to offset personal income from other sources.
 - S corp capital gains flow through to shareholders whose capital gain tax rates are 15% versus C corporation rates as high as 35%.
- *Desire to increase distributions – tax-efficiently – from the company*
 - S corp distributions to shareholders are not subject to second round of taxation.
 - Distributions to shareholders, as opposed to wages, are not subject to self-employment or Social Security/Medicare tax.
- *If you are considering generational ownership transfers or a future sale of the company*
 - Sale of a business operating as an S corporation versus a C corporation may result in 50% to 60% less in taxes.
 - Next-generation owners can use S corporation distributions to fund stock purchase.
 - Gifting of S corporation shares can be more efficient in the long run as the shares tend to have a higher and increasing basis so any taxable gain on sale in the future is lower.
- *Easing of shareholder limitations*

Over the years, the limitations on the number and type of shareholders have decreased. Currently, an S corporation can have up to 100 shareholders and they can be individuals, estates, certain trusts and some tax-exempt organizations.

While S corp election can deliver significant tax savings, it’s a decision to consider carefully with your tax advisor in the context of your company’s overall goals. To learn more about whether S corp conversion may benefit you, please call your AGH tax professional, or contact AGH senior vice president of tax services Shawn Sullivan at (316) 291-4110 or shawn.sullivan@aghlc.com.

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