

Can I change my business from a C corporation to an S corporation?

Answer:

Yes. A C corporation may elect S corporation status if it satisfies certain requirements:

- ▶ It must be incorporated in the United States
- ▶ It must have no more than 100 shareholders (members of a family may be treated as one shareholder)
- ▶ Shareholders must be U.S. citizens, resident aliens, estates, other S corporations, or certain qualified trusts
- ▶ It can have only one class of stock, although both voting and nonvoting shares of the same class are allowed
- ▶ All shareholders must consent to the election in writing

The principal advantage of electing S corporation status is that it allows corporate income to pass through to you and other shareholders and be reported only once as personal income. This avoids the double taxation of C corporation earnings, which are taxed once as corporate profits, and then again as personal income when dividends are distributed to shareholders. In addition, once S corporation status has been elected, you can deduct the corporation's losses against your own personal income up to certain limits.

When a corporation elects S corporation status, it retains that status for all future years unless it revokes or terminates that status. To convert from a C corporation to an S corporation, you must file Form 2553 with the IRS. It should be signed by the person authorized by the corporation to do so and by the shareholders, then filed on or before the 15th day of the 3rd month of the corporation's tax year.

Because of the tax implications of this decision, consult an experienced tax professional before you elect to change from a C corporation to an S corporation.