



## Types of Corporations

Incorporating a Business provides many benefits for any business, regardless of the type or size of the business. Once you have decided that the benefits of incorporating a business outweigh the costs, the next step is to decide what type of corporation is right for your specific business activity?

For most, there are generally four types of corporations to choose from:

- **C Corporation**
- **S Corporation**
- **Nonprofit Corporation**
- **Professional Corporation**

To compare top level attributes for each type of corporation and compare them to other business structures, please visit our Business Structures Chart.

Pros like Allied Tax Group LLC can help make the process so much easier by incorporating your business online easily and affordably with a 100% money-back guarantee\* allowing you to focus on what you do best—growing your business!

## C Corporation

The C Corporation is the most common form of corporate entity. Also known as a “General for-profit corporation”, the C Corporation is owned by shareholders. The shareholders elect a board of directors to create and direct the high-level policies of the business.

This Board of Directors then appoints corporate officers who in turn manage the day-to-day operations of the business.

Please note: In most cases, ONE PERSON may act in all capacities. As a corporate formality, and as a good business practice, however, it’s important to separate these roles and simply “switch hats” when necessary.

Thus, shareholders generally have limited liability, even if they are involved in the day-to-day management while wearing the hat of employee or corporate officer.

The shares of a corporation are freely transferable unless limited by agreement of the shareholders. The corporation exists indefinitely, unless and until it is dissolved. It is a

separately taxable entity, meaning that it must file its own tax return and pay corporate taxes on its profits. There is no limit on the number of shareholders in a C Corporation.

## S Corporation

An S Corporation is formed in the same way that a C Corporation is formed – the Incorporator files Article of incorporation with the state office.

However, the S Corporation is different from a C Corporation in two significant ways.

- The S Corporation makes an election to be taxed as a “pass-through entity” under subchapter S of the Internal Revenue Code. This means that an S Corporation is NOT taxed separate and apart from its owners and/or shareholders. Instead, corporate profits and losses are “passed-through” and reported on the personal income tax returns of the shareholders, much like a partnership.
- In contrast to a C Corporation, an S Corporation has limitations on ownership. In an S Corporation:
  - There is a limit of up to 100 shareholders.
  - Each shareholder must be an individual or a trust (not another corporation); AND

Each individual shareholder must be a citizen of the United States or a “Resident Alien” which includes Permanent Residents (a person who has been issued a Green Card) AND certain Aliens who pass the Substantial Presence Test. These residents (who pass the Substantial Presence Test) NEED NOT be permanent residents. They can be Visa holders (H1/L1) and still be considered Resident Alien per tax laws.

## Nonprofit Corporation

For those groups that are formed for charitable, educational, religious, literary or scientific purposes, and not for the purpose of generating profits for its shareholders, a special legal entity may be formed under Section 501(c)(3) of the Internal Revenue Code. A fully and properly qualified 501(c)3 nonprofit corporation has the following characteristics:

- The corporation is exempt from taxation.
- Tax-exempt corporations are prohibited from paying dividends.
- Upon dissolution, corporate assets must generally be distributed to another qualified nonprofit group.
- Significant filing requirements may exist at both the State and Federal level to establish and maintain tax-exempt status.
- A nonprofit may be prohibited from engaging in certain activities, including participating in political campaigns and substantial engagement in lobbying activities.

# Professional Corporation

Where a business provides a professional service, most states have special filing requirements when incorporating. Professional services typically include:

- Physicians or Doctors
- Attorneys or Law Firms
- Accounting Professionals or CPAs
- Architects
- And other licensed professionals

Corporate filing requirements can vary and may be more or less expansive depending on your state.

Laws governing professional services and corporations are often quite complex. We strongly urge you to consult with an attorney before making the decision to incorporate as a Professional corporation. Once you are properly equipped with the legal advice and information specific to your individual circumstances, Allied Tax Group LLC can assist you and / or your attorney in preparing and filing the necessary documents with the state office.