S Corporation Election

Decision Readiness Checklist

Purpose

An S Corporation election can create meaningful tax savings for some business owners.

It can also introduce additional compliance requirements, payroll obligations, and administrative costs.

This checklist is designed to help determine whether an S Corporation election is likely to support the business and whether the potential benefits justify the additional complexity.

The goal is not simply reducing taxes.

The goal is making an informed decision that supports the business.

Understanding the Decision

Is your business consistently profitable?

Approximate annual net profit before owner compensation:

☐ Less than $25,000

☐ $25,000–$50,000

☐ $50,000–$100,000

☐ $100,000–$250,000

☐ Over $250,000

Why it matters

S Corporation benefits generally come from reducing self-employment taxes.

If profits are inconsistent or modest, the savings may not outweigh the additional costs.

Is the business expected to remain profitable?

☐ Yes

☐ No

☐ Unsure

Why it matters

An S Corporation is typically a long-term strategy, not a one-year tax tactic.

What problem are you trying to solve?

☐ Reduce self-employment taxes

☐ Improve business structure

☐ Increase retirement planning opportunities

☐ Prepare for growth

☐ Advisor recommendation

☐ Not sure

Why it matters

The strongest S Corporation elections are made to solve a specific problem—not because everyone else is doing it.

Are you actively working in the business?

☐ Full-time

☐ Part-time

☐ Mostly passive

☐ Investor only

Why it matters

Active owners must generally receive reasonable compensation.

Payroll & Compensation

Can the business support a reasonable salary?

☐ Yes

☐ No

☐ Unsure

Why it matters

An S Corporation owner generally cannot simply take distributions and avoid payroll.

Reasonable compensation is required.

Are you willing to run payroll?

☐ Yes

☐ No

☐ Already do

Why it matters

S Corporations introduce payroll obligations, payroll filings, and W-2 reporting.

Do you regularly take money out of the business?

☐ Yes

☐ No

☐ Unsure

Why it matters

S Corporation planning often becomes more relevant when owners are consistently withdrawing profits from the business.

Administrative Readiness

Are you comfortable with additional administrative costs?

Potential costs may include:

☐ Payroll processing

☐ Corporate tax return preparation

☐ State reporting requirements

☐ Bookkeeping support

☐ Additional accounting fees

Why it matters

Tax savings should generally exceed compliance costs.

Do you maintain separate business finances?

☐ Separate business bank account

☐ Separate business credit card

☐ Monthly bookkeeping maintained

☐ None of the above

Why it matters

An S Corporation requires stronger recordkeeping and greater separation between business and personal activity.

Have you considered state-level implications?

☐ Yes

☐ No

☐ Unsure

Examples may include:

☐ State franchise taxes

☐ Excise taxes

☐ Annual reports

☐ Additional filing requirements

Why it matters

Federal tax savings can sometimes be reduced by state-level costs.

Planning Considerations

Do you have a retirement plan strategy?

☐ Solo 401(k)

☐ SEP IRA

☐ SIMPLE IRA

☐ Employer-sponsored plan

☐ No retirement plan

Why it matters

Owner compensation affects retirement contribution opportunities.

An S Corporation election should be coordinated with retirement planning.

Have you considered future business goals?

☐ Long-term owner-operated business

☐ Hiring employees

☐ Expanding operations

☐ Bringing in partners

☐ Eventual sale of the business

☐ Unsure

Why it matters

The best entity structure supports both current operations and future goals.

Quick Self-Assessment

Strong Candidate for Further Analysis

☐ Consistent profits over $75,000–$100,000

☐ Active owner

☐ Can support reasonable compensation

☐ Comfortable running payroll

☐ Good bookkeeping systems

☐ Clear planning objective

May Be Worth Exploring

☐ Profits between $50,000–$100,000

☐ Growing business

☐ Uncertain future income

☐ Need projections

☐ Retirement planning opportunities

Proceed Carefully

☐ Profits under $50,000

☐ Irregular income

☐ Poor bookkeeping

☐ Reluctance to run payroll

☐ No clear reason for electing S Corporation status

Potential Next Steps

☐ Determine average annual profit

☐ Estimate reasonable compensation

☐ Calculate potential payroll tax savings

☐ Estimate additional compliance costs

☐ Review retirement contribution goals

☐ Review state-specific considerations

☐ Evaluate future business plans

☐ Schedule an S Corporation Analysis

Final Reflection

Imagine you elect S Corporation status and one year passes.

Would you still feel the election was worthwhile after accounting for:

☐ Payroll requirements

☐ Bookkeeping expectations

☐ Tax return preparation

☐ Compliance costs

☐ Administrative effort

If the answer is uncertain, additional analysis may be worthwhile before making the election.

Disclaimer

This Checklist is intended for educational and planning purposes only. It is not legal, tax, accounting, investment, or financial advice.

Every situation is unique. Tax laws, business circumstances, and state requirements vary. Before making significant business, tax, or financial decisions, consult with your professional advisors regarding your specific situation.

Use this Checklist as a framework for thoughtful decision-making, not as a substitute for professional advice.

Copyright and Permissions

www.hedlundtax.com