



S CORPORATIONS – FILING THE ELECTION

Getting a corporation designated as an “S” can be a bit confusing. If you are committed to getting an “S” corporation, here is how you do it.

“S” Corporation

The “S” in S corporation refers primarily to a tax designation. While electing to be an S corporation does have legal implications, such as no more than 75 shareholders, the designation really concerns pass through tax issues. Put in layman’s terms, the designation simply means the corporation will “pass through” its taxes to shareholder in proportion to their ownership interests. This allows shareholders to claim profits and losses directly on their taxes and avoid the double taxation of a C corporation.

To become an S corporation, you must file an election with the IRS. Typically, no documentation is required to be filed with any state entity, but make sure to check your particular jurisdiction. Regardless, the filing with the IRS is made using form “2553 – Election by a Small Business Corporation.”

To fill out form 2553, you will need to supply the following information:

1. The name and address of the corporation,
2. The tax year to be covered by the election,
3. The date the corporation first had shareholders or began doing business,
4. The name, address and social security number of EACH shareholder, and
5. The signature of EACH shareholder.

If you have shareholders located around the country, making an “S” election filing can be problematic. Getting everyone to sign off on the document can take time and time is not on your side.

Time Requirements

The IRS puts strict deadlines on filing “S” elections. In technical terms, the election must be filed before the 15th day of the third month of the tax year for which you are electing the status. Ah, the IRS is so poetic.

In laymen’s terms, you should file the election within 75 days of the incorporation. From a practical point of view, I suggest you get the election signed and filed as absolutely soon as possible. You should also file the election through registered mail so you have a little proof if the IRS claims a late filing.

I don’t know why, but the IRS gets cranky when it comes to S elections. If you follow the above steps and get the filing in as soon as possible, you should be okay.

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