Our blog article gives you the comparison. This playbook goes further into the actual decision process: what changes at each stage of growth, what an S-Corp election really involves operationally, and what changing structure actually requires once you decide to do it.

Chapter 1: The Core Trade-offs, Liability, Taxes, and Complexity

Every entity structure decision comes down to balancing three things against each other: how much personal liability protection you need, how the resulting tax treatment affects what you keep, and how much administrative complexity you are willing to take on in exchange for the first two. Businesses that get this wrong usually erred by optimising for only one of the three and ignoring the other two.

Chapter 2: Sole Proprietorship and Partnership, the Default Starting Points

Almost every business starts here by default, simply by beginning to operate without formally registering an entity. There is no separate tax filing, no formation cost, and no ongoing compliance burden beyond your personal return. The trade-off is total: no liability protection whatsoever, meaning personal assets are exposed to any business debt or legal claim.

This structure makes sense for a genuinely low-risk side business or a very early-stage test of an idea. It stops making sense the moment there is real revenue, a lease, employees, or any meaningful liability exposure.

Chapter 3: LLC, Flexibility First

An LLC is usually the first real upgrade, and for good reason. It creates a genuine legal separation between the owner's personal assets and the business's liabilities, while remaining a pass-through entity for tax purposes by default, meaning no separate entity-level tax and no double taxation.

The feature most owners do not realise until later is that an LLC can elect to be taxed as an S-Corp without changing its legal structure at all. This means a business can move from default LLC taxation to S-Corp tax treatment purely through a tax election, keeping the same legal entity, the same contracts, and the same bank accounts throughout.

Chapter 4: S-Corp Election, When the Payroll Tax Math Starts to Work in Your Favour

An S-Corp election requires the owner to run payroll for themselves, paying a reasonable salary subject to payroll tax, while any additional profit can be taken as a distribution not subject to payroll tax. This is where the tax advantage comes from, and it only becomes meaningful once profit is high enough that the payroll tax saved outweighs the cost of running payroll and filing a separate business return.

As a general guide, many advisors start considering an S-Corp election once net business income consistently exceeds somewhere in the range of 40,000 to 60,000 dollars annually, though the exact point depends on state taxes, the reasonable salary requirement in your industry, and your specific numbers. This is a calculation worth running properly rather than estimating.

Chapter 5: C-Corp, When It Actually Makes Sense

A C-Corp pays tax at the entity level, and shareholders pay tax again on dividends, the double taxation C-Corps are known for. For most privately held small and mid-sized businesses that plan to distribute profit to owners, this makes a C-Corp the least tax-efficient option available.

It becomes the right choice specifically when a business plans to raise institutional venture capital, since most investors require it structurally, or when a business intends to retain and reinvest most of its earnings rather than distribute them, since retained corporate profit avoids the second layer of tax until it is actually paid out.

Chapter 6: Making the Switch, What Changing Structure Actually Involves

Moving from a sole proprietorship to an LLC involves state-level formation paperwork, a new EIN in most cases, and updating contracts, bank accounts, and licenses to the new entity name. Electing S-Corp tax treatment for an existing LLC or corporation involves filing Form 2553 with the IRS, generally required by March 15 to apply to the current tax year, and setting up payroll for the owner going forward if it is not already in place.

None of these transitions are especially difficult on their own, but each has a deadline and a specific filing requirement attached, which is exactly the kind of detail that is easy to miss without someone specifically tracking it.

Collar Assist works alongside your tax preparation to review whether your current structure still fits as your numbers change, rather than leaving it as a decision made once and never revisited. A free assessment can include this review alongside a look at your current books.