

A BEGINNER'S GUIDE TO RUNNING AN S-CORP

NOT SURE HOW TO RUN AN S-CORP?

Have you heard about S-Corps but maybe don't know what they are or how to run one? Good news! We're S-Corp experts for the self-employed. We want to help you better understand S-Corporations, how they're managed differently than an LLC or a sole proprietorship, their key benefits, and how you can use one to save on taxes and standardize your business finances.

Excited? So are we. Let's start!

What is an S-Corp?

[Follow this link](#) to learn more about this unique tax election.

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IT'S TIME TO OPEN A BUSINESS BANK ACCOUNT

One of the compliance requirements to be an S-Corporation is that you treat your business and personal finances as completely separate entities. Commingling your business and personal finances can lead to serious consequences, such as a dissolution of your S-Corporation or being at risk for an audit from the state or federal authorities. You will need separate business and personal bank accounts; we recommend a larger bank for its ability to pair with cloud accounting solutions.

We recommend that you also open a business credit card. Most banks will issue one even to a new business, provided that they are given the personal guarantee of the majority shareholder (in other words: you). A business credit card will allow you to manage cash flow better and build credit for your company and yourself.

YOU'LL BE WEARING TWO HATS



AS AN EMPLOYEE

- You will receive a salary and a W2 ([more on that here](#)).
- You will need to create an expense reimbursement policy to submit any charges that you personally paid for the business to be repaid (if you accidentally pay for a business expense with your personal funds, this will legitimize the repayment).
- If you primarily work from home, you can take advantage of [Business Use of Home deductions](#). Click this link to learn more.



AS AN EMPLOYER

- You will be the "officer" of the S-Corporation, and, therefore, you will be able to withdraw funds directly from your business account as "equity distributions." This is a non-taxable event in most cases because you will be paying taxes on both the W2 income from the company, as well as the net income that eventually passes through to your personal taxes.
- You will be able to deduct business miles driven at the yearly IRS mileage rate and reimburse yourself as an employee for those incurred costs. We recommend tracking this with the [MileIQ](#) (available on iOS and Android).
- You and your personal assets will be protected by the entity from legal action in most cases with regard to your business activities.



SOME THINGS NEVER CHANGE

You are still only one person. As the sole member of your company, you will be the voice and the face of the business, and your clients will still deal with you as the point of contact. They will just need to pay to your business name and business account, instead of you personally.

You can still pull money from your business account as a distribution whenever you need it, although we recommend running it via your payroll whenever possible.

You still need to develop your business to succeed. Even though you have an S-Corporation, your ability to acquire, retain, and grow your business will be the ultimate key to being profitable or not.



OPENING BANK ACCOUNTS

STEP-BY-STEP

The EIN (Employer Identification Number), EIN Verification Letter, and Articles of Organization are the most important documents needed for you to open a business checking account.

A business account is necessary because, as an LLC electing to file as an S-Corporation, you must treat your business activities as entirely separate from your personal finances.

We recommend choosing a bank partner that integrates best with your bookkeeping and accounting software and will keep the work you need to do a minimum.

As soon as you open a business account, you will need to take a couple of necessary steps to finalize the separation between business and personal accounts:

1. Instruct your customers to send payments for your invoices to the new business account.
2. Move any business-related expenses to be paid out of the new account; see this article for a deeper understanding of what can be considered a business expense.

WELCOME TO PAYROLL



As an employee of your S-Corp, the IRS asks that you pay yourself wages in addition to your distributions. This is done through payroll.



At Formations, we set our customers on a monthly payroll by default. However, you can run it more or less depending on your income needs.



You can have the net check deposited directly into your personal bank account or write yourself a check. It mimics the payroll you would have with a typical W2 job.



All necessary payroll filings, be it state or federal, must be filed every quarter and year. Formations automatically makes these payroll filings on behalf of our customers and provides them with a W2 each year so that they can prepare taxes. Whether you have a solution for managing your S-Corp or not, this will be a requirement of owning an S-Corp.



DEFINING YOUR REASONABLE WAGE

(AND MAXIMUM TAX SAVINGS)

Each month or quarter, you will have to assess the current payroll totals for the year to adhere to acceptable minimum payroll standards for S-Corporations. These are based on reasonable industry average wages, which can depend on several factors but might run anywhere from 25 to 50 percent of your net income.

For instance, if the industry standard for payroll is 40 percent and you have a net income of \$100,000, you would want your wages (salary) around \$40,000.

There may be situations where you want to take more or less, which can fluctuate. At Formations, our experts help customers utilize their payroll to help maximize their tax savings.

We are also cognizant of cash flow needs: if it is necessary to preserve cash balances for some period of time, you can suspend or lower payroll to accommodate those needs.

NEVER OVERPAY ON TAXES AGAIN

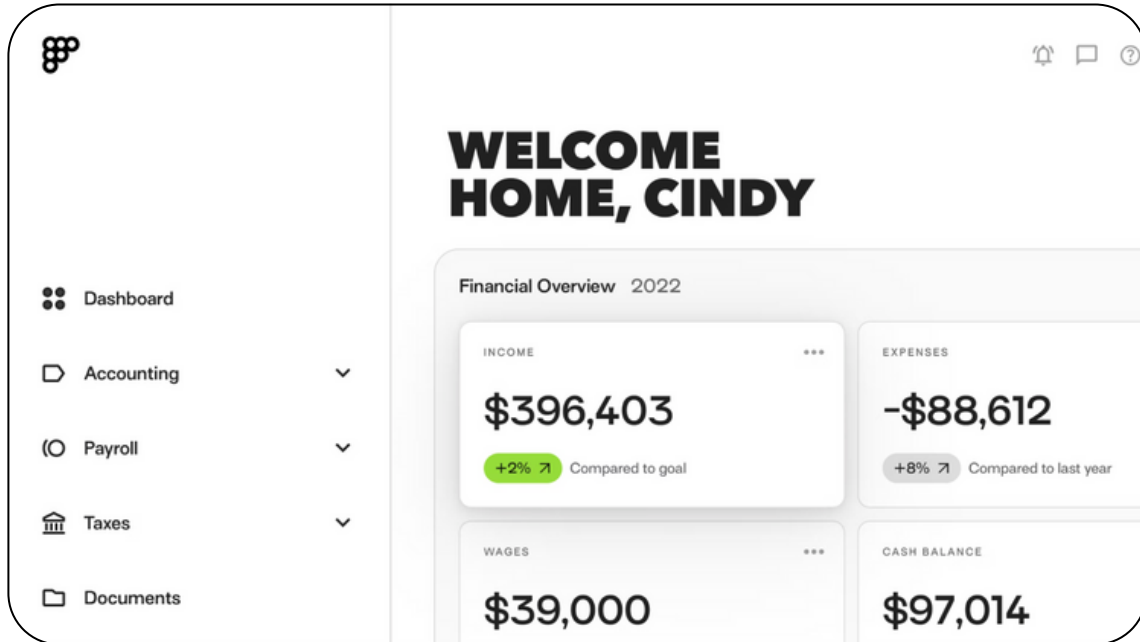
BEING AN S-CORP HAS ITS PERKS

Health Insurance: By paying for health insurance through the company as an employee, you can fully deduct the cost of premiums (but not out-of-pocket expenses) as a business expense. As an officer of the company, it will show up as income on your W2, but the tax savings will remain because you will have prepaid the necessary taxes through payroll.

401(k) and SEP IRA: This is the S-Corporation structure's real “magic bullet”. When opened under the company name, specific retirement plans will enable you to contribute a portion of your W2 salary to your retirement plan AND allow the company (you) to match those contributions as a business expense. This has the effect of taking income you would normally pay self-employment taxes on and putting it in a tax-deferred retirement account. [More on retirement options for the self-employed here.](#)

EXAMPLE:

You make \$200k in net income in a given year. You pay yourself \$100k in wages, which is then reduced to about \$75k net income (after payroll taxes). You then put \$25,000 into your retirement account: half from you as the employee and half from the business as a match. You’ve effectively reduced your taxable income from the business by over \$150,000!



INTRODUCING FORMATIONS

SAVE TIME + MONEY

Focus on what you do best, not time-consuming back-office tasks, and let Formations take care of the rest.

GAIN VISIBILITY

Gain valuable insights into the financials of your business so you can make data-driven decisions.

PREVENT SURPRISES

Nobody likes surprises. Our platform makes it easy to stay on top of your tax liabilities and responsibilities.

ENJOY PEACE OF MIND

With Formations, your taxes are handled by the experts; no more worrying about cash flow, compliance, or deadlines.

WE CAN'T PREDICT YOUR FUTURE, BUT WE CAN PREDICT YOUR TAXES



Your biggest expense as a self-employed professional is your taxes. It's time the self-employed were able to manage them—predictably. Formations is a friendly yet powerful dashboard, designed specifically for the self-employed to maximize their tax savings, reduce annual liability, and prevent surprises.

We all know that the best tax approach is proactive—taxes should be managed year-round. With Formations, you claim deductions, report on income and expenses, pay your tax estimates and report on tax-changing events whenever they occur so that when filing season comes, you can file on time and not be surprised by a large tax bill.

Have a question or concern? Got a scary letter from the IRS? We're here to help with a dedicated team of tax, accounting, bookkeeping, and business experts at your disposal, so you never go to sleep with a tax concern.

VISIT OUR WEBSITE



QUESTIONS?

SCHEDULE A CALL

