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2026 TAX YEAR EDITION

Choosing the Right Business Structure

How Your Entity Choice Shapes Your Year-End Taxes

A practical guide for business owners comparing the Sole Proprietorship, Partnership, S Corporation and C Corporation, plus where the LLC fits in.

Iskra Pérez Salcedo, Founder & Lead Accountant
30+ years of experience • Hablamos español
(843) 637-7100 • iskrap@ipsaccountingservices.com
www.ipsaccountingservices.com

Why Your Structure Matters

The way your business is organized decides three things that affect your wallet every year: **who pays the tax** (you personally or the business), **how much self-employment tax you owe**, and **which forms and deadlines** you must meet at year end. A good choice can save thousands of dollars. A poor one can cost you penalties and lost deductions.

> **A quick note on the LLC:** An LLC is a legal structure created under state law, not a tax category. The IRS taxes an LLC as a sole proprietorship (one owner) or a partnership (two or more owners) by default, or as an S Corporation or C Corporation if you elect it. The four tax structures in this guide therefore cover every LLC, too.

Two key ideas

Pass-through taxation: The business itself pays no federal income tax. Profit "passes through" to the owners' personal returns, whether or not the cash was taken out.

Double taxation: The business pays corporate tax on its profit, and owners pay tax again on the dividends they receive.

What's new for 2026

- NEW The 20% **Qualified Business Income (QBI) deduction** for pass-through owners is now **permanent**, with a new $400 minimum deduction for owners with at least $1,000 of active business income.
- NEW The **1099-NEC reporting threshold rose from $600 to $2,000** for payments made in 2026.
- The Social Security wage base is **$184,500** for 2026.

1. Sole Proprietorship

One owner, with no separate entity required (single-member LLCs are taxed this way by default). It is the simplest and least expensive structure to run.

How it's taxed

- Profit is reported on **Schedule C** of your personal Form 1040.
- You pay income tax at your personal rate **plus self-employment tax of 15.3%** (12.4% Social Security on the first $184,500 and 2.9% Medicare on everything).
- You may qualify for the 20% QBI deduction.

Year-end impact

- Due with your personal return: **April 15, 2027** for the 2026 tax year.
- You don't run payroll for yourself, so you make **quarterly estimated payments** to avoid underpayment penalties.
- All profit is subject to self-employment tax, which becomes costly as income grows.

> **Best for:** New or small businesses with modest profit and simple operations. **Watch out:** Without an LLC, your personal assets have no liability protection.

2. Partnership

Two or more owners (multi-member LLCs are taxed this way by default). Owners share profits, losses and responsibilities according to their partnership agreement.

How it's taxed

- The partnership files an information return, **Form 1065**, and pays no federal income tax itself.
- Each partner receives a **Schedule K-1** showing their share of income, which goes on their personal return.
- General partners usually pay self-employment tax on their share, and the QBI deduction may apply.

Year-end impact

- Form 1065 is due **March 15, 2027** for calendar-year partnerships, a month before personal returns.
- Late-filing penalties are charged **per partner, per month**, so a missed deadline adds up fast.
- Partners owe tax on their share of profit even if the money stays in the business.

> **Best for:** Co-owned businesses that want flexibility in how profits are split. **Watch out:** A clear written partnership agreement is essential.

3. S Corporation

A corporation or LLC that elects S status by filing **Form 2553**. It is limited to 100 shareholders and one class of stock, and owners must generally be U.S. individuals.

How it's taxed

- Files **Form 1120-S**, and profit passes through to owners on **Schedule K-1**.
- Owners who work in the business must pay themselves a **reasonable salary** through payroll.
- Only the salary carries Social Security and Medicare tax. Remaining profit taken as distributions **avoids the 15.3% self-employment tax**, which is the main source of savings.
- Shareholders may qualify for the 20% QBI deduction.

Year-end impact

- Form 1120-S is due **March 15, 2027**.
- Payroll filings are required: W-2s and W-3 by **February 1, 2027** (January 31 falls on a Sunday), plus quarterly Form 941 and annual Form 940.
- Health insurance for owners with more than 2% of the shares must be added to their W-2 to be deductible.
- Bookkeeping and compliance costs are higher than for a sole proprietorship.

> **Example:** A business earns $100,000 in profit. As a sole proprietor, the owner would owe about $14,100 in self-employment tax. As an S Corporation paying the owner a reasonable $55,000 salary, payroll taxes of about $8,400 apply only to the salary. That's potential savings of roughly $5,700, before extra payroll and filing costs. *Illustration only; actual results vary.*

> **Best for:** Profitable businesses, often with $60,000 or more in net profit, where the tax savings exceed the extra compliance cost.

4. C Corporation

A separate taxable entity owned by shareholders. It is the standard structure for companies seeking outside investors or planning to go public.

How it's taxed

- Files **Form 1120** and pays a flat **21% federal corporate tax** on profit.
- Dividends paid to shareholders are taxed again on their personal returns (**double taxation**).
- Owner-employees receive salaries through payroll, and the business can offer a broad range of deductible fringe benefits.
- There is no QBI deduction, but profits can be kept in the company at the corporate rate.

Year-end impact

- Form 1120 is due on the 15th day of the 4th month after year end: **April 15, 2027** for calendar-year companies.
- The corporation makes its own quarterly estimated tax payments.
- Payroll filings are required, as with an S Corporation, plus Forms 1099-DIV for dividends.
- It has the most formalities: board meetings, minutes, bylaws and separate records.

> **Best for:** Businesses raising capital, reinvesting most profits or planning a sale or expansion.
> **Watch out:** Double taxation applies when profits are distributed.

Side-by-Side Comparison

	Sole Proprietorship	Partnership	S Corporation	C Corporation
Owners	1	2 or more	Up to 100, generally U.S. individuals	Unlimited
Who pays income tax	Owner	Partners	Shareholders	Corporation, plus shareholders on dividends
Federal return	Schedule C (1040)	Form 1065 + K-1s	Form 1120-S + K-1s	Form 1120
2026 due date	April 15, 2027	March 15, 2027	March 15, 2027	April 15, 2027
Self-employment tax	On all net profit	Usually on partner's share	Only on salary	Only on salary
20% QBI deduction	Possibly	Possibly	Possibly	No
Owner payroll required	No	No	Yes	Yes
Liability protection	Only if an LLC	Only if an LLC or LP	Yes	Yes
Complexity and cost	Low	Moderate	Moderate to high	High

Your 2026 Year-End Checklist

- Reconcile all bank and credit card accounts through December 31, 2026.
- Keep business and personal expenses separate.
- Collect W-9s and issue **Forms 1099-NEC** to contractors you paid **$2,000 or more** in 2026, by **February 1, 2027**.
- S and C Corporations: confirm that owner salaries are reasonable and issue W-2s by February 1, 2027.
- Review equipment and other asset purchases for depreciation and Section 179 opportunities.
- Confirm that your quarterly estimated payments were made on time. The last 2026 payment for individuals is due **January 15, 2027**.
- Note your March 15 or April 15 deadline. Extensions give you more time to file, **not** more time to pay.
- Ask whether your current structure still fits your profit level.

Not sure which structure is right for you?

IPS Accounting Services & Consulting has helped small businesses since 2013, backed by more than 30 years of corporate accounting experience. We'll review your numbers, compare structures and keep you on track at year end, in English or Spanish. Your first consultation is free.

Phone / WhatsApp:	**(843) 637-7100**
Email:	**iskrap@ipsaccountingservices.com**
Website:	**www.ipsaccountingservices.com**

Sources

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This guide provides general educational information about U.S. federal taxes for the 2026 tax year and is not tax or legal advice. Rules, rates and deadlines change, and deadlines that fall on a weekend or holiday move to the next business day. State taxes and fees vary. Consult a qualified professional about your specific situation.