S Corporation vs. Sole Proprietorship

How much could you save in self-employment tax? • 2026 tax year

IPS ACCOUNTING SERVICES & CONSULTING

Sole Proprietorship

- All net profit is subject to **15.3% self-employment tax** (12.4% Social Security up to $184,500 + 2.9% Medicare).
- No payroll for the owner. Files Schedule C with Form 1040, due April 15, 2027.
- Simple and inexpensive to run.

S Corporation

- Owner takes a **reasonable salary** through payroll. Only the salary pays the 15.3% payroll taxes.
- Remaining profit is taken as **distributions**, free of self-employment tax.
- Files Form 1120-S, due March 15, 2027, plus payroll filings.

Estimated annual savings

Net business profit	Sole prop: SE tax	S Corp: owner salary (example)	S Corp: payroll taxes on salary	Estimated savings
$60,000	$8,478	$35,000	$5,355	**$3,123**
$100,000	$14,130	$55,000	$8,415	**$5,715**
$150,000	$21,194	$75,000	$11,475	**$9,719**
$200,000	$28,234	$90,000	$13,770	**$14,464**

Self-employment tax is figured on 92.35% of net profit. Payroll taxes include both the employee and employer shares (7.65% each). Figures compare Social Security and Medicare taxes only. They do not include income tax, the QBI deduction, state taxes or the 0.9% Additional Medicare Tax.

Subtract the added costs. An S Corporation needs a payroll service, a separate Form 1120-S return, quarterly payroll filings and, in some states, extra fees. Savings are real only when they exceed these costs, which is why the S Corporation usually makes sense at **about $60,000 or more** in steady net profit.

An S Corporation may fit if you...

- Earn steady profit of about $60,000 or more
- Can run payroll and keep clean books
- Plan to keep the business long term

Watch out for...

- A salary set too low, which the IRS can challenge
- The Form 2553 election deadline
- Lower Social Security credits on a smaller salary

Find out what you'd save. We'll run your real numbers, set a defensible salary and handle the election and payroll. First consultation free, in English or Spanish.

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Illustrative estimates for general education only; not tax or legal advice. Salary examples are assumptions; a reasonable salary depends on your role, industry and hours. Sources: IRS, Self-employment tax (irs.gov/businesses/small-businesses-self-employed/self-employment-tax-social-security-and-medicare-taxes); SSA, Contribution and benefit base (ssa.gov/oact/cola/cbb.html); IRS, Form 7004 due date chart, tax year 2026 (irs.gov/pub/irs-efile/form-7004-due-date-chart-py2026-dated-10222026.pdf).