



“Using Corporate Structures to Shield Assets”

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S-Corporation

An S-Corporation, or S-Corp, differs from a traditional corporation in the fact that with an S-Corp, the income passes through and there is no taxation at the corporate level. You still get the benefit of the corporate shield, but there is no double taxation. With a normal corporation, all of the revenue of the corporation is first reported on the tax return of the corporation and then reported again when it is distributed to the shareholders or other proponents of the business.

In effect, the government gets to take two passes at the revenue. As such, for a smaller entity, a far better business structure is the S-Corp. This is because the S-Corp provides all of the personal shields that a traditional corporation provides, but there is no double taxation. With an S-Corp, you do still have the overhead of setting up and maintaining a corporation, so that is the main drawback. For smaller business entities, the S-Corp is the corporation of choice. For larger entities, a traditional corporation will be warranted.

The disadvantage of the S-Corp, compared it to the LLC, for example, is that you have all the overhead of the corporation—the paperwork, filing fees, annual meetings, meeting notes, etc.

Although you will likely need the help of an attorney to set up your S-Corp, don't always believe them if they tell you that an S-Corp is the best structure for your particular business. Many attorneys measure their annual revenue by the number of corporations they set up and maintain, so they are encouraged to advise that it is the best structure. I am not saying they are unprofessional on purpose; rather, they may specialize in corporations and thus believe they are the best structure for any business.