Punita Ahuja CPA PLLC
MONTHLY CLIENT TAX NEWSLETTER



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LLC, S Corporation, or Sole Proprietorship: Which Structure Fits Your Business?

Your business structure affects how income is taxed, personal liability exposure, payroll responsibilities, paperwork, and future growth. Here is a practical starting point for North Carolina business owners.

SOLE PROPRIETORSHIP	LIMITED LIABILITY COMPANY (LLC)	S CORPORATION (TAX ELECTION)
Taxes: Business profit typically reported on Schedule C; net earnings generally subject to self-employment tax.	**Taxes:** Single-member LLC defaults to sole-proprietor tax treatment; multi-member LLC generally defaults to partnership treatment. Other elections possible.	**Taxes:** Generally pass-through federal taxation; eligible corporations and LLCs may elect S status and file Form 1120-S.
Liability: No separate legal shield; owner generally personally responsible for business obligations.	**Liability:** Generally separates personal and business liabilities, subject to exceptions and proper practices.	**Liability:** Depends on the underlying legal entity (corporation or LLC), not the tax election alone.
Payroll: Owner is not their own W-2 employee; hiring staff triggers employer obligations.	**Payroll:** Depends on tax classification; a default single-member LLC owner generally is not their own W-2 employee.	**Payroll:** Working shareholder-employees generally need reasonable W-2 compensation before non-wage distributions.
Administration: Usually simplest and least expensive, but licenses and tax registrations may still apply.	**Administration:** Formation, registered agent, records, and NC annual reports for most ordinary LLCs.	**Administration:** Added payroll, corporate tax filings, bookkeeping, and eligibility requirements.

What matters as your business grows?

Profit and owner compensation: An S election can change how owner compensation and distributions are taxed, but it does not eliminate payroll taxes or guarantee savings. **Risk and financing:** Consider contracts, insurance, lenders, investors, and future ownership changes. **NC compliance:** Most NC LLCs file an annual report by April 15, with a $200 paper fee or $203 online by credit card; corporate and state tax obligations may also apply.

CPA TIP | Choose the structure that fits your risk, expected profit, payroll needs, and growth plan—not just the lowest advertised tax rate. Review elections and state-specific requirements before making a change.

Planning a startup or considering a business-structure change? Contact Punita Ahuja CPA PLLC for guidance tailored to your business.

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Educational information only; not individualized tax or legal advice. Sources: IRS business entity guidance and NC Secretary of State annual-report guidance (reviewed Nov. 2026).

For information only, not professional advice. General information only; individual tax treatment depends on the facts.