

## **Optimizing Your Company's Tax Classification**

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What kind of taxable entity is your business? Is it a C corporation, an S corporation, a limited liability company, or a sole proprietorship? Each of these tax classifications is generally guided by its own set of federal tax laws and regulations. The unique rules attributable to each type present advantages and disadvantages when they are compared to one another.

Because of the existence of these varying pros and cons, a business must consider many factors in determining its optimal tax type. These factors include the kinds of activities carried on by the business, the number of owners, the types of owners (individuals or entities), overall business goals (privately owned or publicly owned), federal tax laws and state tax laws, among other things. What may be ideal for one kind of business may not be suitable for another.

A company's actual legal entity type may not be the same as its optimal tax entity type. When a business determines that this is true for its own circumstances, it can take advantage of federal tax rules that permit it to select another status for federal taxation. Accordingly, a corporation may elect to be taxed as an S corporation, while a limited liability company may have reason to elect to be taxed as a C corporation.

Both new and existing businesses can make such an election, but there are additional rules concerning the effective date of the election. Generally, an entity tax classification election is not effective more than 75 days prior to the date the election form is filed. It also must take effect within 12 months after the date the election form is filed. However, there are rules that allow for late elections, too.

As the first part of November is generally known as an election period, perhaps this is a good time for your company to make an assessment of its optimal tax classification and to consider an election of its own.