

Understanding S Corporation Taxes

Owner wages, outside employment and the real cost of an election

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Clear explanations. Comparable examples. Better questions.

For individual U.S. owners who want to understand business taxes alongside an outside job. Federal rules are the focus; state and local taxes require separate analysis.

Quick start

An owner who works for the company generally needs reasonable wages. Remaining profit usually passes through without self-employment tax. Compare the full income-tax result and extra payroll costs before expecting savings.

Inside this resource

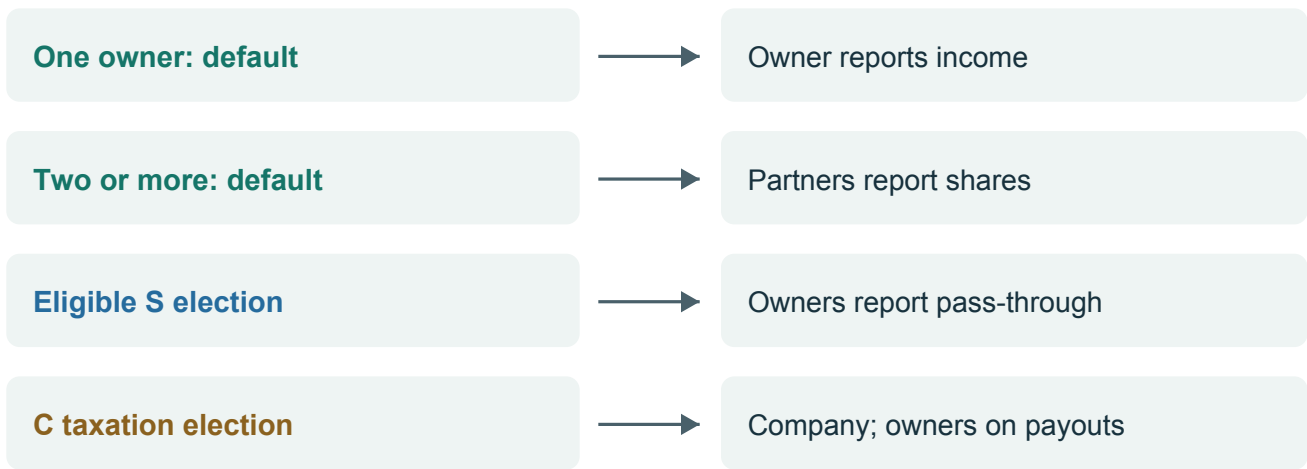
An LLC is a legal structure; taxation is a separate choice / Tax brackets work in layers / Several different taxes can apply / Meet Mr. Xavier: a business owner with an outside job / Xavier elects S corporation taxation / When S corporation treatment may help / Your other paycheck can change the answer / Elections, distributions and records / A business name does not turn personal use into a deduction / A home, an office and a rental are different situations / Turn the comparison into a useful conversation

Prepared by Chervil LLC. Educational material for business owners.

An LLC is a legal structure; taxation is a separate choice

A limited liability company (LLC) is created under state law. Federal tax classification tells the IRS how its income is reported. Think of the LLC as the business's legal identity and the tax classification as the reporting rules it follows. Liability protection has limits and does not replace insurance.

ONE LEGAL STRUCTURE. DIFFERENT TAX PATHS.



An LLC is formed under state law. Ownership and valid elections determine its federal income-tax treatment.

With one individual owner, the default is usually a disregarded entity: the IRS generally includes the activity on that owner's income-tax return. An operating business commonly uses Schedule C; rental or farming activities may use other schedules. With two or more owners, a domestic LLC normally uses partnership taxation unless an election changes that treatment. [\[IRS Publication 3402\]](#)

An eligible LLC can elect corporate taxation. S corporation status generally passes income to eligible owners; C corporation taxation generally makes the business a separate income-tax payer. Forming an LLC alone does not make an S election. [\[IRS Publication 3402\]](#)

Arrangement	Who normally pays federal income tax on profit?
Default single-member LLC	The individual owner.
Default partnership LLC	The partners on their allocated shares.
S corporation	The shareholders; special entity-level taxes can apply.
C corporation	The corporation; shareholders may also owe tax on dividends.

Pass-through means tax items move to the owners' returns. Keeping cash in a pass-through business usually does not postpone the owners' tax. A distribution is a payment to an owner; it is not automatically the amount of taxable profit. [\[IRS Publication 541\]](#) [\[IRS\]](#)

Tax brackets work in layers

Revenue is money the business brings in. Profit is revenue minus allowable business costs. Taxable income is the amount left for income-tax purposes after applicable deductions. The tables below apply to taxable ordinary income, not automatically to sales or gross pay. [\[Revenue Procedure 2025-32\]](#)

A marginal rate is the rate on the next dollar in a particular tax category. An effective rate is total tax divided by a clearly identified income amount. Always say which tax and which income you are comparing.

A \$60,000 TAXABLE-INCOME EXAMPLE

\$12,400 in the first layer	10%	\$1,240
\$38,000 in the next layer	12%	\$4,560
\$9,600 in the next layer	22%	\$2,112

Total ordinary income tax: \$7,912

Single filer, 2026. The 22% rate touches only the top \$9,600 in this illustration. Before credits and other taxes.

The illustration uses \$60,000 of taxable ordinary income for a single filer. Only the last \$9,600 falls in the 22% bracket. Tax is \$7,912, not 22% of the entire \$60,000. That is about 13.19% of this taxable-income amount, before other taxes or credits.

2026 rate	Single	Married filing jointly*
10%	\$0 to \$12,400	\$0 to \$24,800
12%	Over \$12,400 to \$50,400	Over \$24,800 to \$100,800
22%	Over \$50,400 to \$105,700	Over \$100,800 to \$211,400
24%	Over \$105,700 to \$201,775	Over \$211,400 to \$403,550
32%	Over \$201,775 to \$256,225	Over \$403,550 to \$512,450
35%	Over \$256,225 to \$640,600	Over \$512,450 to \$768,700
37%	Over \$640,600	Over \$768,700

2026 rate	Head of household	Married filing separately
10%	\$0 to \$17,700	\$0 to \$12,400
12%	Over \$17,700 to \$67,450	Over \$12,400 to \$50,400
22%	Over \$67,450 to \$105,700	Over \$50,400 to \$105,700
24%	Over \$105,700 to \$201,750	Over \$105,700 to \$201,775
32%	Over \$201,750 to \$256,200	Over \$201,775 to \$256,225
35%	Over \$256,200 to \$640,600	Over \$256,225 to \$384,350
37%	Over \$640,600	Over \$384,350

*Qualifying surviving spouses use the joint rate schedule. Filing status follows eligibility rules; it is not simply a choice of the best table. Basic 2026 standard deductions are \$16,100 single or married filing separately, \$32,200 joint, and \$24,150 head of household. Special rules can change the deduction. A deduction reduces income subject to tax; a credit reduces the tax itself, subject to its rules. [\[Revenue Procedure 2025-32\]](#)

Several different taxes can apply

Income tax and employment taxes do different jobs. FICA is the Social Security and Medicare tax system for employees and employers. Self-employment tax generally provides corresponding taxes for people working for themselves. Do not simply add a 24% income-tax bracket to 15.3% and apply the result to all revenue. [\[IRS Publication 15\]](#) [\[IRS Topic 554\]](#)

Tax	2026 rule and tax base
Employee Social Security	6.2% of covered wages up to \$184,500 per person.
Employer Social Security	6.2% on covered wages, generally with its own wage-base obligation for each unrelated employer.
Employee / employer Medicare	1.45% each on covered wages; no earnings cap.
Regular self-employment tax	12.4% Social Security plus 2.9% Medicare, generally on 92.35% of covered net profit. The Social Security portion is limited by the remaining wage base after covered wages.
Additional Medicare Tax	0.9% on applicable combined wages and self-employment earnings above the filing-status threshold. No employer matching amount.
Regular C corporation income tax	21% of corporate taxable income, not gross receipts.
Net Investment Income Tax (NIIT)	3.8% of the smaller of net investment income or excess modified adjusted gross income over the applicable threshold.

For Additional Medicare Tax and NIIT, the usual thresholds are \$200,000 for single or head of household, \$250,000 joint, and \$125,000 married filing separately. They tax different income categories. NIIT does not apply to wages. Modified adjusted gross income starts with income after certain adjustments, with modifications required for that tax. [\[IRS Topic 560\]](#) [\[IRS Topic 559\]](#)

A qualified dividend is a corporate dividend meeting special requirements, including relevant holding-period rules. Its federal rate is generally 0%, 15% or 20%. Ordinary taxable income uses up lower-rate space before qualified dividends are stacked on top. Nonqualified dividends generally use ordinary income-tax rates. [\[IRS Topic 404\]](#) [\[IRS Topic 409\]](#)

Filing status	0% through	15% through; 20% above
Single	\$49,450	\$545,500
Married filing jointly*	\$98,900	\$613,700
Head of household	\$66,200	\$579,600
Married filing separately	\$49,450	\$306,850

These 2026 dividend boundaries refer to total taxable income, including qualified dividends and net capital gain; they are not separate allowances for dividends. *Also qualifying surviving spouses. NIIT may be additional. [\[Revenue Procedure 2025-32\]](#)

Meet Mr. Xavier: a business owner with an outside job

Mr. Xavier, age 40 and single, earns \$50,000 at an unrelated employer. Form W-2 is the employer's annual statement of wages and taxes withheld. He also owns a small specialty-products business. After inventory costs and ordinary operating expenses, it earns \$100,000 before his own salary and related employer payroll taxes. This is profit, not sales.

He materially participates, meaning he is sufficiently involved under the tax participation rules. He is the only owner, has no dependents or other income, takes the \$16,100 standard deduction, and has no credits, retirement contributions or health-insurance deductions in this model. His outside wages are fully subject to Social Security and Medicare.

For this corporate example, assume \$60,000 is supportable compensation for his actual work after reviewing hours, duties, comparable pay and the role of employees and capital. That is a modeling assumption, not an IRS safe harbor. His part-time schedule alone does not establish a reasonable salary.

[\[IRS\]](#)

We include federal ordinary income tax, qualified-dividend tax, regular Social Security and Medicare taxes, and regular corporate income tax where applicable. We exclude state/local taxes, unemployment taxes, extra payroll/accounting fees and special industry taxes. Those costs must be added before a real decision.

Assume full eligibility for the qualified business income (QBI) deduction where shown. This can deduct up to 20% of eligible pass-through business income, subject to limits. Employee wages and C corporation operating income do not qualify. The deduction reduces income tax, not self-employment tax. [\[IRS\]](#)

We use rate-schedule mathematics without intermediate rounding. Filed-return tax tables and whole-dollar rounding may give slightly different results. There is no Additional Medicare Tax or NIIT under these facts. With only his \$50,000 job, taxable income would be \$33,900 and ordinary income tax about \$3,820. His own outside-job FICA is \$3,825. This \$7,645 baseline is constant across the alternatives.

Xavier elects S corporation taxation

The business pays him wages for his work. The remaining profit passes to his personal return. A Schedule K-1 is the form reporting his share of the business's tax items. Qualified nonwage profit generally avoids self-employment tax, but still faces income tax. [\[IRS\]](#) [\[IRS\]](#)

Step	Calculation / result
Owner wages	\$60,000
Employer FICA	$\$60,000 \times 7.65\% = \$4,590$
Employee FICA withheld from owner pay	$\$60,000 \times 7.65\% = \$4,590$
Remaining business profit	$\$100,000 - \$60,000 - \$4,590 = \$35,410$
QBI deduction	$20\% \times \$35,410 = \$7,082$
Taxable ordinary income	$\$50,000 + \$60,000 + \$35,410 - \$16,100 - \$7,082 = \$122,228$
Ordinary income tax	$\$17,966 + 24\% \times \$16,528 = \$21,932.72$
Additional federal tax from the business	$\$21,932.72 - \$3,820 + \$9,180 = \$27,292.72$

The employer contribution reduces corporate profit. The employee contribution comes from Xavier's salary; it is not a second corporate wage deduction. His salary is not QBI. Assume sufficient stock basis and no old C corporation earnings, so paying out the current \$35,410 profit causes no second income tax. Basis is a tax tracking amount used to determine whether withdrawals or losses create additional consequences. [\[IRS Publication 15\]](#) [\[IRS\]](#) [\[IRS\]](#)

Combined modeled tax, including outside-job FICA, is \$34,937.72; about \$115,062.28 remains personally if all available business cash is distributed. His regular business employment taxes fall by \$4,949.55 versus the default LLC, but income tax rises by \$3,355.16. The net modeled federal saving is only \$1,594.39, before extra costs.

Payroll software, preparation fees, unemployment taxes, different reasonable wages or state taxes could reduce or eliminate this saving. A smaller payroll-tax number alone does not prove that an S election is worthwhile.

When S corporation treatment may help

It may fit an eligible operating business with reliable profit left after reasonable owner wages and enough expected savings to justify payroll and tax-return costs. The election has ownership restrictions, generally including no more than 100 shareholders, allowable shareholder types and one class of stock. Nonresident alien shareholders generally are not eligible. [\[IRS\]](#)

An outside W-2 job does not remove the need for reasonable compensation for services to the S corporation. The right wage depends on the work and the business, not a fixed percentage. A solo service business whose revenue largely comes from its owner's labor may need a much larger wage than Xavier's

assumed amount. [\[IRS\]](#)

An S corporation still requires payroll records, timely filings, a separate business return and ownership-basis records. Some health-benefit and retirement rules depend on wages and ownership. Lower wages can mean less retirement contribution capacity. Review employer retirement plans together rather than assuming separate jobs always create separate employee contribution limits. [\[IRS\]](#) [\[IRS Publication 560\]](#) [\[IRS\]](#)

Your other paycheck can change the answer

An outside job usually fills some lower income-tax brackets before business income is added. It can also affect QBI limitations and other deductions. Withholding is money sent to the IRS in advance; it is not the final tax rate. [\[IRS Publication 505\]](#) [\[IRS\]](#)

Now imagine \$190,000 of covered outside wages instead of \$50,000. Those wages already exceed the 2026 Social Security base. A default LLC owner generally has no remaining Social Security self-employment-tax base, although Medicare and possibly Additional Medicare Tax remain. [\[IRS Topic 554\]](#) [\[Social Security\]](#) [\[IRS Topic 560\]](#)

An S or C corporation paying the owner wages generally still owes its own employer Social Security tax. Unrelated employers normally withhold independently. The owner can generally claim a credit for excess employee Social Security from multiple employers; that does not ordinarily refund the corporation's employer share. Special common-paymaster or successor rules need separate review. [\[IRS Publication 15\]](#) [\[IRS Topic 608\]](#)

Two partners, equal profit, different tax

Consider a separate partnership LLC owned equally by Ana and Ben. Each receives \$40,000 of business profit assumed fully subject to self-employment tax. Both are single, active owners. Ana has \$100,000 of outside covered wages; Ben has \$190,000. Their individual employment-tax results differ:

On each \$40,000 profit share	Ana	Ben
Regular self-employment tax	\$5,651.82	\$1,071.26
Additional Medicare Tax caused by LLC earnings	\$0	\$242.46

Both use \$36,940 of self-employment earnings. Ana pays 15.3% on that amount. Ben has no remaining Social Security base, so pays 2.9% Medicare, plus 0.9% on \$26,940 above his \$200,000 combined threshold. Ordinary income tax is additional and depends on each return. LLC member self-employment treatment can be fact-sensitive; these shares are expressly assumed covered. [\[IRS Publication 541\]](#) [\[IRS Topic 554\]](#) [\[IRS Topic 560\]](#)

Elections, distributions and records

A valid S election generally uses Form 2553, usually due within two months and 15 days after the start of the intended tax year, or during the preceding year. Late-election relief may be available. Confirm eligibility, all required shareholder consents, the effective date and IRS acceptance. [\[IRS\]](#)

Non-dividend distributions generally avoid a second income tax only to the extent of stock basis. For example, \$15,000 distributed against \$10,000 of stock basis can produce \$5,000 of gain, assuming no other adjustments or special rules. Debt basis may help support losses but does not shelter a distribution. Former C corporation earnings complicate these rules. [\[IRS\]](#)

For an owner holding more than 2%, qualifying health premiums paid or reimbursed by the business generally require special W-2 handling; an individual deduction may be available if conditions are met. Eligibility for subsidized coverage through an outside employer can limit that deduction. Coordinate benefits before choosing the structure. [\[IRS\]](#)

Maintain payroll, deposits, employment returns, the annual Form 1120-S and K-1s, and a current basis schedule. Ordinary operating income often avoids the extra C corporation income-tax layer, but special built-in-gains and passive-income rules can create entity-level tax. [\[IRS\]](#)

A business name does not turn personal use into a deduction

START WITH USE, THEN APPLY THE TAX RULES

A company name on the title does not establish a deduction.

DOCUMENTED BUSINESS USE

Check eligibility, limits and records.

Example: 12,000 of 20,000 miles = 60%

PERSONAL USE

Exclude it or report the benefit.

The other 8,000 miles = 40%

Car, home office, rental or commercial building?

Different assets follow different deduction, depreciation and sale rules.

Illustrative mileage split, not a universal allocation. Corporate personal use can create taxable compensation or a distribution.

Suppose Xavier drives 20,000 miles, of which 12,000 are documented qualifying business miles. Business use is 60%. Under an eligible actual-cost method, \$10,000 of qualifying mixed-use running costs would

generally support a \$6,000 business allocation. The personal 40% is not a business deduction. Vehicle purchase cost, interest and depreciation require their own rules. [\[IRS Topic 510\]](#)

An eligible taxpayer may instead use the standard mileage method. Keep a dated business-mileage log and total miles; do not deduct the same costs again under both methods. Ordinary travel from home to a regular workplace is generally personal commuting. A qualifying principal home office can change some trip classifications. [\[IRS Topic 510\]](#) [\[IRS Publication 463\]](#)

If an S or C corporation owns a car, personal use generally creates a taxable employee benefit or another owner-level consequence. Alternatively, the owner may use a personal car and receive substantiated reimbursement under an accountable plan: a business reimbursement arrangement requiring a business connection, timely evidence and return of excess advances. [\[IRS Publication 15-B\]](#) [\[IRS Publication 463\]](#)

Depreciation means recovering an asset's cost through tax deductions, sometimes over years and sometimes faster under special rules. A loan payment is not automatically deductible: principal pays for the asset, while allowable interest and cost recovery are separate. A large vehicle write-off depends on classification, business use, timing and deduction limits. A later sale or drop in business use may produce taxable recapture, meaning earlier deductions are partly brought back into income. [\[IRS Publication 946\]](#)

A \$6,000 deduction does not mean a \$6,000 refund. At a 24% income-tax margin, its isolated income-tax effect would be \$1,440 before interactions. At the regular 21% corporate rate, it would be \$1,260. QBI, employment taxes and other limits can change the full result.

A home, an office and a rental are different situations

Your personal residence

Moving a personal home into an LLC does not make household costs business expenses. A wholly owned disregarded LLC can preserve individual treatment for the home-sale exclusion when the relevant requirements are met. Corporate ownership ordinarily does not preserve the same personal exclusion. Financing, title, insurance and state-law consequences also need review. [\[Treasury Regulation 1.121-1\]](#) [\[IRS Publication 523\]](#)

A qualifying home office

A self-employed owner generally needs regular, exclusive qualifying business use, subject to specific exceptions. A desk occasionally used at the family dining table usually does not satisfy exclusive use. Under the simplified method, an eligible 200-square-foot office can produce a \$1,000 deduction at \$5 per square foot, subject to the applicable limit and rules. This does not make the entire mortgage deductible. [\[IRS Publication 587\]](#) [\[IRS\]](#)

A shareholder-employee may instead evaluate corporate reimbursement of qualifying actual home-office costs through an accountable arrangement. Do not simply use the self-employed simplified deduction as a

corporate reimbursement formula. [\[IRS Publication 463\]](#) [\[IRS Publication 587\]](#)

Rental or commercial property

Income-producing property can have deductible operating costs and depreciation. Land is not depreciable. A \$300,000 residential rental with \$60,000 allocated to land leaves \$240,000 for the building; a full-year straight-line amount over 27.5 years is about \$8,727. First and final years follow convention rules. Commercial buildings normally use a different recovery period. Rental losses may be limited even when the owner has a W-2 job. [\[IRS Publication 527\]](#) [\[IRS Publication 925\]](#)

Think about the exit before transferring real estate. A corporation distributing a building worth \$500,000 with a \$250,000 adjusted basis can recognize \$250,000 of gain even without selling it to an outsider. In a C corporation, shareholder-level tax may also follow; in an S corporation, the gain normally passes through and affects basis. [\[26 USC 311\]](#) [\[IRS\]](#)

Turn the comparison into a useful conversation

Bring your filing status, outside pay statements, expected business revenue and expenses, ownership details, work duties, desired cash withdrawals, benefits, asset records and growth plans. Ask for the owner and business returns to be modeled together.

Bring this	Why it matters
Outside W-2 wages and withholding	Income brackets, employment taxes and payments already made.
Profit forecast, not just sales	The amount available before owner pay and tax.
Owner duties and hours	Support for reasonable corporate compensation.
Current tax election and ownership records	Which reporting rules actually apply.
Vehicle logs and property records	Business-use evidence, basis and future sale effects.
Cash needs and investor plans	Whether retaining profit or corporate ownership fits.

Estimated tax is a pay-as-you-go payment toward the final bill. Additional W-2 withholding may help cover tax on a side business; quarterly estimates may be appropriate. A larger payment reduces the balance due, not necessarily the underlying tax. Corporations have separate payment rules. [\[IRS Publication 505\]](#) [\[IRS Publication 542\]](#)

General federal education for individual U.S. owners; this is not a personal recommendation, a complete return calculation or a promise of savings. State and local taxes require a separate review. Rates, elections and results must be checked for the taxpayer and year involved.

Quick glossary

Term	Plain-language meaning
Adjusted gross income (AGI)	Income after certain adjustments, before the standard or itemized deduction.
Basis	A tax tracking amount, often starting with cost or investment and changing with later events.
Capitalization	Recording a cost as part of an asset rather than deducting it immediately.
Deduction / credit	A deduction reduces taxable income; a usable credit reduces tax.
Distribution / dividend	A distribution pays an owner. A dividend is a particular kind of corporate distribution with its own tax rules.
Effective / marginal rate	An average tax percentage on a stated base / the rate on the next relevant dollar.
FICA / self-employment tax	Social Security and Medicare taxes for employment / corresponding taxes on covered self-employment income.
Pass-through / K-1	Income reported by owners / the schedule showing an owner's allocated tax items.
QBI	Qualified business income: eligible business income used for a potentially available deduction.
Reasonable compensation	Pay supportable for the services actually performed.
Recapture	Rules that can bring earlier tax benefits back into taxable income.
Withholding / estimated tax	Advance payments toward a final tax bill, not separate deductions.

Your preparation worksheet

Use this page privately before a professional review. Estimates are useful starting points; bring supporting records through an agreed secure method.

Question	Your notes
What do you expect in outside wages and withholding?	_____
What is projected business profit before owner pay?	_____
Who owns the business, and what election is in effect?	_____
What work does each owner perform?	_____
How much cash do you need personally this year?	_____
What assets, benefits or investor plans need review?	_____

Chat with Chervil LLC

Bring your questions, expected profit and ownership plans. We can help identify the records and tax issues that need a closer review.

Start a conversation

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Scan the QR code or use the contact link. Please do not send W-2s, Social Security numbers, tax returns or banking details through a public form or ordinary email. Arrange a suitable document-exchange method first.

Sources and scope

Official sources were reviewed for this 2026 edition. Older publication editions are used for continuing rules; annual amounts and legislative changes use the applicable current authority. Follow the links to check the rules for the actual return year. This resource is not a substitute for a complete client-specific calculation.

[IRS Publication 3402: Taxation of LLCs](#)

[IRS Publication 541: Partnerships](#)

[IRS: S corporations](#)

[Revenue Procedure 2025-32: 2026 tax adjustments](#)

[IRS Publication 15: 2026 employer tax guide](#)

[IRS Topic 554: Self-employment tax](#)

[Social Security: 2026 contribution and benefit base](#)

[IRS Topic 560: Additional Medicare Tax](#)

[IRS Topic 559: Net Investment Income Tax](#)

[IRS Publication 542: Corporations](#)

[IRS Topic 404: Dividends and distributions](#)

[IRS Topic 409: Capital gains and losses](#)

[IRS: S corporation compensation and health insurance](#)

[IRS: Qualified business income deduction](#)

[IRS: S corporation stock and debt basis](#)

[IRS: S corporation retirement contributions](#)

[IRS Publication 560: Small business retirement plans](#)

[IRS Publication 505: Withholding and estimated tax](#)

[IRS Topic 608: Excess Social Security withholding](#)

[IRS: Form 2553 election instructions](#)

[IRS Topic 510: Business use of car](#)

[IRS Publication 463: Travel, gifts, cars and reimbursements](#)

[IRS Publication 15-B: 2026 fringe benefits](#)

[IRS Publication 946: Depreciation](#)

[Treasury Regulation 1.121-1: Principal-residence exclusion](#)

[IRS Publication 523: Selling your home](#)

[IRS Publication 587: Business use of your home](#)

[IRS: Simplified home-office deduction](#)

[IRS Publication 527: Residential rental property](#)

[IRS Publication 925: Passive activity and at-risk rules](#)

[26 USC 311: Gain on corporate property distributions](#)