

Formations



A Beginner's Guide to Running an S Corp

Curious about S Corporation? not sure how to run one? We're here to help!

We're S Corporation experts for the self-employed. We want to help you better understand S Corporations: how they're managed differently than an LLC or a Sole Proprietorship; what their key benefits are; and how you can use one to save on taxes and standardize your business finances.

Excited? So are we. Let's start!

What is an S Corporation?

Follow this [link](#) to learn more about this unique tax entity →

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It's Time to Open A Business Bank Account (Every Business Has One!)

You will need separate business and personal bank accounts.

One of the compliance requirements to be an S corporation is that you treat your business and personal finances as completely separate entities. Commingling your business and personal finances can lead to serious consequences, such as a dissolution of your S Corporation or being at risk for an audit from the state or federal authorities.

We recommend that you also open a business credit card. Most banks will issue one even to a new business, provided that they are given the personal guarantee of the major shareholder (in other words: you). A business credit card will allow you to manage cash flow better, as well as build credit for your company and yourself.

You Will Be Wearing Two Hats

The best practice is to think of yourself as wearing “two hats” in the company: An employee hat and a CEO hat.



As an employee:

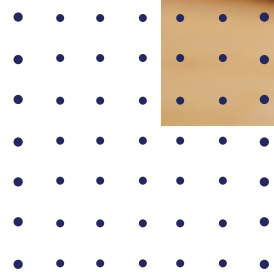
- You will receive a salary and a W2.
- You should have an expense reimbursement policy to submit any charges that you personally paid for the business to be repaid. If you accidentally pay for a business expense with your personal funds, this will legitimize the repayment of it in the eyes of any tax authorities.
- If you primarily work from home, you will be able to take advantage of Business Use of Home deductions. [Click this link to learn more.](#)



As a CEO:

- You will be the "officer" of the S corporation, and, therefore, you will be able to withdraw funds directly from your business account as “equity distributions.” This is a non-taxable event in most cases because you will be paying taxes on both the W2 income from the company, as well as the net income that eventually passes through to your personal taxes.
- You will be able to deduct business miles driven at the yearly IRS mileage rate and reimburse yourself as an employee for those incurred costs. We recommend tracking this with the [MileIQ](#) app (available on iOS and Android).
- You will be personally insulated by the entity from legal action in most cases with regard to your business activities.
- All of these changes would normally require you to have employees or contractors to help manage it, which can cost thousands of dollars. Formations can do all that for you – and help you save money. Let us be your financial dream team!

Some Things Never Change...



- You are still only one person. As the sole member of your company, you will be the voice and the face of the business, and your clients will still deal with you as the point of contact. They will just need to pay to your business name and business account, instead of you personally.



- You can still pull money from your business account when you need it, although we recommend running it via payroll whenever possible



- You still need to develop your business to succeed. Even though you have an S Corporation, your own ability to acquire, retain, and grow your business will be the ultimate key to being profitable or not.

Opening Bank Accounts And Credit Cards: Step by Step



The EIN (Employer Identification Number), EIN Verification Letter, and Articles of Organization are the most important documents needed for you to open a business checking account.

- A business account is necessary because, as a licensed LLC electing to file as an S Corporation, you must treat your business activities as completely separate from your personal finances.
- We recommend choosing a bank partner that integrates best with your bookkeeping and accounting software and will keep the work you need to do a minimum.
- As soon as you open a business account, you will need to take a couple of necessary steps to finalize the separation between business and personal accounts:
 - Instruct your customers to send payments for your invoices to the new business account.
 - Move any business-related expenses to be paid out of the new account; [see this article](#) for a deeper understanding of what can be considered as a business expense.

Welcome to Payroll!



- As an employee of your S Corp, the IRS asks that you pay yourself wages in addition to your distributions. This is done through payroll.



- Customers using Formations will, by default, have their payroll frequency set to monthly. However, you can run it more or less often depending on your income needs.



- You can choose to have the net check deposited directly into your personal account, or write yourself that check manually. It mimics the payroll you would have with a typical W2 job.



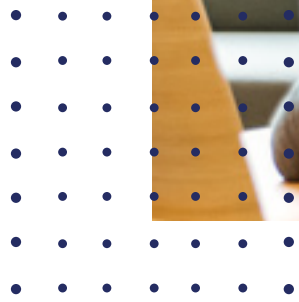
- All necessary payroll filings, be it state or federal, must be filed every quarter and year. Formations automatically makes these payroll filings and provides customers with a W2 each year so that they can prepare taxes.



Defining Your Reasonable Wage and Maximizing Your Tax Savings:



- Each month/quarter, you will have to assess the current payroll totals for the year in order to adhere to acceptable minimum payroll standards for S Corporations (based on reasonable [industry average wages](#)). These generally run from about 25% to 50% of your net income. For instance, if the industry standard for payroll is 40% and you have a net income of \$100,000, we will want your wages to sit around \$40,000.
- There may be situations where we recommend that customers take more payroll in order to take advantage of better income and retirement benefits that will help maximize your tax savings under the S Corporation. At Formations, our experts help customers utilize their payroll and maximize their savings. We are also cognizant of cash flow needs: if it is necessary to preserve cash balances for some period of time, we can suspend or lower payroll to accommodate those needs.



Welcome to Cloud Accounting



- You did not become self-employed to be a bookkeeper. We highly recommend that you use cloud accounting software.



- For our customers at Formations, the accounting will mostly be automatic as our system pulls transaction data directly from the bank account.



- Your cloud accounting software can generate a financial summary that will include your balance sheet, profit, and loss. As a Formations customer, we will provide you with useful tips on changes you can make that will make your business more profitable, or your tax savings higher.

There Is No Better Time Than Now to Save On Taxes and Enjoy Fortune 500 Benefits



- The thing that makes an S Corporation truly the best entity for the self-employed lies in its ability to leverage benefits to maximize tax savings:
 - **Health Insurance** – By paying for health insurance through the company as an employee, you can fully deduct the cost of premiums (but not out-of-pocket expenses) as a business expense. As an officer of the company, it will show up as income on your W2, but the tax savings will remain because you will have prepaid the necessary taxes through payroll.
 - **401(K) and SEP IRA** – This is the real “magic bullet” of the S Corporation structure. Certain retirement plans, when opened under the company name, will enable you to contribute a portion of your W2 salary to your retirement plan AND allow the company to match those contributions as a business expense. This has the effect of taking income that you would normally pay self-employment taxes on and putting it in a tax-deferred retirement account.
 - You can read more about 401(K) and retirement plans in [this post](#).



- Example = You make \$200k in net income in a given year. You pay yourself \$100k in wages, which is then reduced to about \$75k net income (after payroll taxes are factored in). From there, you put \$25,000 into your retirement account --half from you as the employee and half from the business as a match. You've effectively reduced your taxable income from the business by over \$150,000!



- You should note that, until you reach a certain level of income, the savings from retirement account funding will be limited. They are also capped by IRS regulations each year.

Introducing Formations

Complete Financial Management for the Self-Employed

You went into business to make money and pursue your dreams -- not to spend time worrying about bookkeeping, taxes, and crunching numbers. Luckily, Formations is here to help.



Save money on taxes



Get real-time recommendations on how to manage your business finances



Access Fortune 500-like benefits like health insurance and retirement plans



Formations is a new type of accounting service.

We automate the creation and management of S Corporations, the most efficient tax structure for the self-employed. By doing so, we save our customers thousands of dollars each year on taxes; provide affordable health insurance and other corporate-like benefits; and issue monthly paychecks so our users can enjoy the perks of a predictable income. We believe that being independent doesn't mean being alone. Join us today to unlock your full financial potential.

Help Us → ♥ Help You

**We hope that you found this information helpful.
If you're interested in learning more about Formations and how
we can help you with your business financial structure, please
click the button below and one of our experts will reach out to
you as soon as possible.**

Speak With An Expert

We encourage you to follow us on [Facebook](#), [LinkedIn](#), and [YouTube](#),
where we frequently post updates and relevant information.
You can also find useful information on various financial topics on our [blog](#).

#heretohelp

Formations Team