

Starting a Small Corporation (S-Corp)

Southeast Idaho Small Business Development Center

Benefits of Starting a Business as an S-Corporation

- There are minimum legal requirements, you can operate from home, and you can start as soon as you are registered with the state.
- Corporate has the ability to pay shareholders and employees and offer benefit plans.
- Shareholder has no personal liability in the event of a lawsuit or debt collection (unless there is a personal guarantee on the debt).
- S-Corps are able to avoid double taxation on corporate income.

Concerns About Being a Shareholder in a Corporation

- An S-Corp is formal, requires registration with the state and stock issue. It is also more difficult to dissolve. **Plan to ask for an attorney's help drafting the documents.**
- As a shareholder, you may be required to personally guarantee specific S-Corp debts, credit lines, or liabilities.
- The S-Corp does not pay federal or state income tax. As the shareholder, you are subject to both federal and state income taxes. The S-Corp pays the sales, excise, and employment taxes prior to determining profit to the partners.

How Do I Put Money or Assets into the Business?

- Use personal funds or personal credit until the business is established. **Establish a business bank account.** Accountants can help you understand how to manage this.
- S-Corp itself may borrow from a financial institution or a government agency, in which any financing may require the shareholder to guarantee the loan.

How Do I Take Money or Profit Out of the Business?

- Profits can be taken as earned by transferring from the business account to the shareholder's personal account. You will need a tax professional to help you with this.

How Do I Report the Business on a Tax Return?

- The Corporation first files a Form 1120S to report the income and expenses to arrive at the profit, and then a Form 1040/1040SR. You will need a tax professional to help you with this.

Can the Business Have Employees?

- Any business may have employees, including family members. Request SBDC “Hiring Employees” guide.

How Do I Start an S-Corporation?

- 1) You can check to see if the name of your business has already been used on the [Idaho Secretary of State website](#). Then, you and your investors should consult with an attorney to discuss the liability and financial arrangements, and the need for a written agreement.
- 2) If the business name is not registered with anyone else, you should file with the Idaho Secretary of State for “Articles of Incorporation General Business Corp.” attaching the written agreement [here](#). The cost is \$100 and it allows you to have a unique name that cannot be used by anyone else.
- 3) You will need to obtain a free tax identification number (TIN or EIN) from the IRS by completing a SS-4 on the [IRS website](#).
- 4) Once you have the TIN, you will complete a free registration for Idaho. This registration is a one-stop shop where you can obtain a sales permit, an income tax withholding permit, state unemployment number, and any other permits needed to do business in the State of Idaho. The registration is called an IBR-1 and is found [here](#).
- 5) You will need help from an attorney to plan your articles of incorporation and issue stock.

How Do I Close a Corporation?

- The S-Corporation notifies the State of the dissolution, distributes all of the assets after paying the creditors, issues a dividend statement for the distributed assets to the shareholders, and files a final Form 1120S.