S-Corp Election Decision Guide for Therapists

Designed for U.S. mental health professionals weighing an S election for their private practice

Switching your practice to be taxed as an S-corporation can offer tax benefits — but it also brings payroll rules, accounting complexity, and risk. This guide helps you weigh pros, check eligibility, and decide confidently for 2025.

Why consider an S-Corp?

- ☐ In a sole proprietorship or LLC taxed as a pass-through, all net profits are subject to self-employment tax (~15.3%).
- ☐ With an S election, you can split your income into salary + distributions. Only the salary portion gets payroll taxes (Social Security + Medicare). Distributions avoid those taxes.
- ☐ But: you must pay yourself a "reasonable salary" first, or risk IRS reclassifying distributions as wages (plus penalties).
- ☐ Also: S corporations retain pass-through taxation — no double tax at corporate level.
- ☐ Some states allow PTET / entity-level tax treatment for S corps to mitigate SALT limits.

Are you eligible? Criteria checklist

- ☐ You must be a domestic corporation or LLC (that can be taxed as a corporation).
- ☐ Have no more than 100 shareholders (and they must be U.S. persons, certain trusts, or estates).
- ☐ Only one class of stock allowed.
- ☐ You must make the S election timely by March 15 of the year you want it effective (or earlier).
- ☐ State law: your state must permit S corps (many do).
- ☐ The business should generate enough profit beyond a base salary to make the extra complexity worthwhile.

How to elect

- ☐ File Form 2553 (Election by a Small Business Corporation).
- ☐ All shareholders must sign.
- ☐ If late, you may qualify for relief under IRS rules (if you act promptly and meet criteria).
- ☐ After acceptance, your business files Form 1120-S annually and issues Schedule K-1s to shareholders.

Salary vs. distributions: how much to pay yourself

- ☐ You must pay yourself a reasonable salary first if you're actively working in the business.
- ☐ Use relevant benchmarks (BLS data, comparable practices in your area, your role).
- ☐ Some use a 60/40 rule (60% salary, 40% distributions) as a rough starting point — but it's not IRS-approved or guaranteed.
- ☐ Document your reasoning (how you arrived at "reasonable") in case of audit.
- ☐ After paying salary, you may take distributions proportionate to share ownership (must follow one class of stock rule).

Pros & cons at a glance

Pros	Cons / Risks
Lower self-employment taxes on distributions	More bookkeeping, payroll, and compliance
Potential state tax benefits via PTET election	Must pay “reasonable salary” or risk reclassification and penalties
Pass-through taxation (no corporate double tax)	Some states charge franchise or entity-level taxes
Better credibility / structure for growth	Administrative costs (payroll, accounting, legal)

Decision checklist — Is S-Corp right for you in 2025?

- [ ] Do you consistently generate net profits beyond what you must reasonably pay yourself?
- [ ] Are you comfortable running payroll (or outsourcing it)?
- [ ] Do the tax savings outweigh added costs (payroll service, accounting)?
- [ ] Does your state tax environment favor S corps or offer entity-level tax options?
- [ ] Can you document and justify your salary based on market norms?

Final reminder

Electing S-Corp is a step up — it can save on payroll taxes but only if done properly. If salary is too low or paperwork is sloppy, you risk surprises, audits, and penalties. Approach this decision thoughtfully, not just for 2025 but for your practice’s growth curve.

Questions? We help therapists nationwide decide whether S-Corp fits their financial goals and execute the election with confidence.

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