Diehl CPA

S Corp Decision Report

Prepared for Jordan and Casey Avery · Harbor Light Design LLC · Projection for 2027 · Prepared November 12, 2026

The short answer

An S corporation election offers a modest benefit. Whether it's worth the added work is a judgment call. At a projected net profit of $165,000 and an owner salary of $85,000, we estimate the election would change your total annual cost by **$3,303** a year. The estimate is **$6,056** at a $70,000 salary and **$550** at $100,000.

- **Break-even:** at a $85,000 salary, the election starts saving money once net profit passes about $139,400.
- **Salary is the biggest lever.** The IRS requires a reasonable salary for the work you do before you take distributions. Every extra dollar of salary pays Social Security and Medicare tax.
- **Added costs:** about $2,862 a year for payroll, a separate S corporation tax return and payroll taxes for unemployment. These are included in every figure.
- **Timing:** to be an S corporation for all of 2027, a calendar-year business generally must file Form 2553 by March 15, 2027 (see page 4).

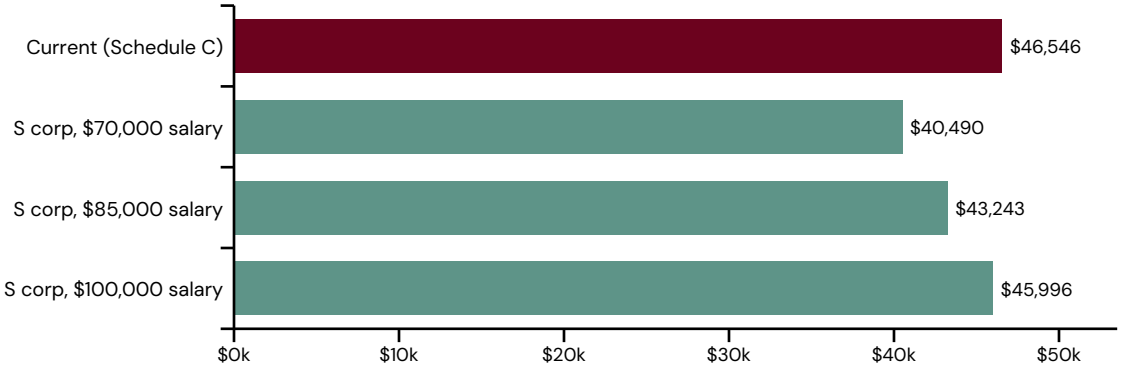
Side by side

	Current (Schedule C)	S corp at $70,000	S corp at $85,000	S corp at $100,000
Owner salary (W-2)	—	$70,000	$85,000	$100,000
S corp profit passed to you (K-1)	—	$86,783	$70,636	$54,488
Federal income tax	$23,232	$26,918	$27,376	$27,834
Self-employment tax	$23,314	$0	$0	$0
Payroll taxes (employer + employee share)	$0	$10,710	$13,005	$15,300
Additional Medicare and investment income tax	$0	$0	$0	$0
Added S corp costs	$0	$2,862	$2,862	$2,862
Qualified business income deduction (memo)	$30,669	$17,357	$14,127	$10,898
Total estimated annual cost	$46,546	$40,490	$43,243	$45,996
Savings vs. current	**—**	**$6,056**	**$3,303**	**$550**

Federal only. Household figures include your other income shown on page 5. Payroll taxes on the salary are paid through payroll, not on Form 1040, so they're shown on their own line.

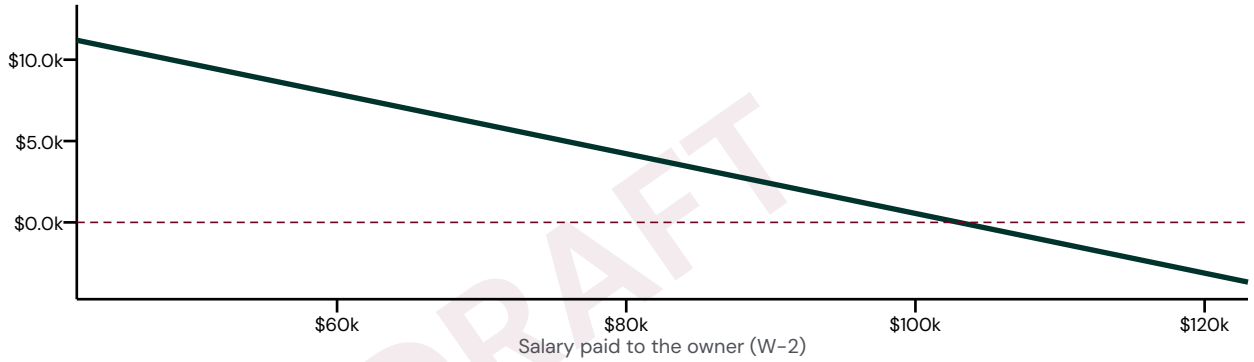
DRAFT

Estimated total annual cost: federal tax, payroll taxes and added S corp costs



How salary and profit change the answer

Estimated annual savings (or cost) at different salaries



Projected net profit	Salary $70,000*	Salary $85,000*	Salary $100,000*
$123,750	$3,953	$1,888	-$177
$165,000	$6,056	$3,303	$550
$206,250	$7,507	$4,066	$624

Estimated annual savings. *Salaries scale with profit in the 75% and 125% rows (and never exceed profit), because reasonable pay usually rises with the work that produces the profit.

Your reasonable salary

S corporations must pay reasonable compensation to a shareholder-employee for services before non-wage distributions are made, and the IRS can reclassify distributions as wages. The IRS looks to the source of the business's gross receipts: income produced by your own services points to wages.

Factors the IRS lists

- Training and experience; duties and responsibilities; time and effort devoted to the business
- Dividend history; payments to non-shareholder employees; timing and manner of bonuses
- What comparable businesses pay for similar services; compensation agreements; use of a formula

The range used in this report

You do most of the design and client work, manage one contractor, and work about 45 hours a week. The range reflects those duties and what similar businesses pay for comparable work.

This range is a planning estimate, not a formal compensation study. If your facts change, the salary and the savings change with them.

What changes if you elect

Area	What you'd do
Election	File Form 2553. An LLC that timely files Form 2553 is treated as electing to be taxed as a corporation, so a separate Form 8832 isn't needed.
Payroll	Run payroll for yourself at least on a regular schedule; withhold and deposit income and payroll taxes; file Forms 941 and 940 and issue a W-2.
Tax return	File Form 1120-S each year (due March 15 for a calendar-year business). You receive a Schedule K-1 for your Form 1040.
Books	Keep business and personal funds separate; track distributions and your basis.
Health insurance	Premiums the S corp pays for a more-than-2% owner go on your W-2 in box 1 (not boxes 3 and 5), and you may deduct them on Form 1040.
State	Some states and cities tax S corporations or charge fees. Your state's costs are in the added-cost line.

Added costs used in this report

Cost	Annual amount
Payroll service	$900
Form 1120-S preparation (estimate)	$1,500
Federal unemployment tax (FUTA)	$42
State unemployment tax (estimate)	$420
State entity tax or fees	$0
Total	**$2,862**

Timing

- For an existing calendar-year business, file Form 2553 any time during 2026, or no later than 2 months and 15 days after 2027 begins: **March 15, 2027**.
- Late elections may qualify for relief if there was reasonable cause, generally within 3 years and 75 days of the intended effective date, following the Form 2553 instructions.
- Payroll should start with the first pay period of the S corporation year.

Inputs and assumptions

Input	Value
Filing status	MFJ
Projected net profit (Schedule C)	$165,000
Other household wages	$62,000
Other household income (interest and similar)	$1,200
Tax law figures	2026 federal figures (Rev. Proc. 2025-32; Social Security wage base $184,500)
Not modeled	State income tax, retirement plan contributions, health insurance, and changes in income between years

Note: Law year 2026 figures are used for a 2027 projection. Re-run with 2027 figures once the IRS and SSA publish them.

Retirement plans

In an S corporation, employer retirement contributions are based on your W-2 salary, not total profit. A lower salary can reduce how much you're able to contribute. If retirement savings matter to you, we'll look at it on the call.

What this report is and isn't

This is a tax planning estimate for one projected year, prepared from information you provided, and approved by Mark Diehl, CPA. If you decide to elect within 60 days after your call, Form 2553 preparation and filing for a timely election is included in your fee. Payroll setup, state elections, late-election relief and returns are quoted separately if you want them. Actual results depend on your final income, salary, and the law in effect. It doesn't guarantee any tax result and isn't legal or investment advice.

Sources

1. Instructions for Form 2553: https://www.irs.gov/instructions/i2553
2. IRS, S corporation compensation and medical insurance issues: https://www.irs.gov/businesses/small-businesses-self-employed/s-corporation-compensation-and-medical-insurance-issues
3. Rev. Proc. 2025-32 (2026 tax tables, standard deduction, QBI threshold): https://www.irs.gov/pub/irs-drop/rp-25-32.pdf
4. SSA 2026 Social Security wage base: https://www.ssa.gov/cola/factsheets/2026.html

Mark Diehl, CPA · former state tax auditor · Diehl CPA LLC
Pending review and approval by Mark Diehl, CPA

DRAFT