C-CORPORATIONS

DEFINITION

A C-corporation is an entity formed under state law that is a separate legal entity owned by shareholders. It is taxed under Internal Revenue Code, Subtitle A, Chapter 1, Subchapter C, and is taxed separately from its owners. A C-corporation is different from an S corporation, which is not taxed separately. Most major companies are treated as C-corporations, which are taxed annually on their earnings, while the shareholders are taxed on dividend distributions.

HOW THEY WORK

FORMATION

C-Corporations are formed under the laws of a specific state or the District of Columbia. A company can decide which state they would like to incorporate in, as procedures vary widely by state. Some states allow formation of corporations through different means such as electronic filing on the state's website. All states require payment of a fee upon incorporation, although these fees can also differ. Corporations are then issued a "certificate of incorporation" by most states upon formation and many also adopt additional governing rules knows as bylaws.

IDENTITY

A C-Corporation is an independent legal entity that is separate from the people who own, control and manage it. Because of this, it is viewed as a legal "person" in the view of tax laws, and can engage in business and contracts, initiate lawsuits and itself be sued.

TAXATION

A C-corporation is the only business structure that is not classified as a pass-through entity. This means profits are taxed at the corporate level before they are distributed in the form of dividends to the owners or shareholders. The shareholders must then also pay tax on the income. This creates what is called a double tax. The C-corporation does not get a tax deduction when it distributes dividends to shareholders and shareholders cannot deduct any loss of the corporation. A C-corporation pays taxes at its own corporate income tax rates and files Form 1120 each year with the IRS.

DEBTS AND LIABILITIES

C-Corporation shareholders are protected from personal liability for business debts and claims. This limited liability means that if the business owes money or is sued, only the assets of the business itself are at risk. Creditors usually cannot reach the personal assets of the corporation's members. However, this liability protection is not applicable if the C-Corporation members act illegally or unethically.

CONTINUITY

A C-Corporation designation allows a business to have an independent existence, separate from its shareholders. If a shareholder leaves the company, or sells his or her shares, the C-Corporation can continue doing business relatively undisturbed.