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S-Corporation or C-Corporation? Incorporating in Arizona

S-corporations and C-corporations share many of the same advantages and disadvantages. Probably the single biggest drawback to both forms of **corporation in Arizona** is the difficulty of proper incorporation. The process is much more complex—and requires much more accountant and attorney involvement—than forming a limited liability company, sole proprietorship, or partnership.

Among the many advantages of both the S- and C-corporation in Arizona:

- **Limited liability protection.** Shareholders and their families are not typically liable for corporate debts.
- **Relative ease of fundraising.** When additional funds are required to maintain or expand the business, additional shares can be sold.

Similarities between an Arizona C-corporation and S-corporation

- **Separate entities.** Both the S-corporation and C-corporation are separate legal entities created by filing Articles of Incorporation with the Arizona Corporation Commission.
- **Structure.** Both have shareholders, directors and officers. Shareholders own the company and elect the board of directors, who in turn oversee and direct corporate affairs but are not responsible for day-to-day operations. The directors elect the officers to manage daily business.
- **Corporate formalities.** Both are required to follow the same internal and external corporate formalities and obligations, such as adopting bylaws, issuing stock, holding shareholder and director meetings, filing annual reports, and paying annual fees.

Differences between Arizona S-corporations and C-corporations

S-corporations are different from C-corporations in the following ways:

- **Ownership.** C-corporation shareholders may include any number of individuals, institutions, and other corporations. S-corporation ownership is limited to 100 or fewer individual shareholders, each of whom must

be a United States citizen or resident. C-corporations may have multiple classes of stock while S-corporations may have only one.

- **Taxation.** C-corporations are separate tax entities, meaning that they pay taxes directly on their profits, and shareholders are subject to personal income tax on any dividends distributed by the corporation. S-corporations are pass-through tax entities, meaning that individual shareholders may deduct their portion of any corporate losses from their personal income tax, and must pay taxes on their portion of any corporate profit. The S-corporation does not file its own tax return.

Choosing a corporate form

There is no single right answer to the question of how to incorporate your business—it depends in large part on your business goals. C-corporations may provide a little more flexibility for growing your business, when it comes to issuing new shares or new classes of stock, but that flexibility must be weighed against your interest in maintaining control over your business or ensuring that like-minded shareholders remain the ultimate power behind the corporate throne.

With corporations, even one owner corporations, meetings and "Minutes" (i.e. typed notes of the meetings) are important. In some states, like Arizona, failure to do and keep the Minutes current can result in the loss of liability protection. So, some businesses hire their law firms to do the Minutes.

Savvy Arizona business attorneys

Located in Phoenix, the Law Offices of Donald W. Hudspeth serve the entire Arizona business community. As [business attorneys in Phoenix](#), we have over three decades of combined experience practicing in all areas of Arizona and [Phoenix business laws](#), and most of us have experience owning our own small business or working in the private sector.

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