

Evaluating S-Corp Election for Nurse Practitioner Practice Netting \$125,000 Annually: S-Corp election suitability for nurse practitioner

Key Takeaway

At a steady \$125,000 of net business income a year, a nurse-practitioner (NP) practice is already far enough above the “break-even” range (\approx \$60-\$65 k) where the employment-tax savings from an S-corporation generally exceed the extra payroll, bookkeeping, and tax-return costs. Provided you (1) are willing to run payroll and file Form 1120-S, (2) can document a “reasonable salary” of roughly \$70-\$85 k, and (3) your state lets an NP own a PC/PLLC or LLC that may elect S-status, electing an S-Corp should save a few thousand dollars a year after expenses—without hurting your §199A deduction.

Below is a more detailed “go / no-go” analysis using 2025 amounts

• Does an NP practice qualify to make the election?

- You need a U.S. entity with only one class of stock, \leq 100 U.S. shareholders and no non-resident aliens ^[4c].
- In most states NPs must practice through a Professional Corporation (PC) or Professional LLC (PLLC). A PC/PLLC can check the box and file Form 2553 just like an ordinary LLC ^[40d] ^[40m].
- Health-care services are a “specified service trade or business,” but that only matters for §199A once taxable income exceeds the 2025 SSTB phase-in (\$197,300 single / \$394,600 MFJ). At \$125 k you are below the threshold.

• Reasonable compensation

- IRS requires shareholder-employees who provide more than minor services to be paid “reasonable compensation” as W-2 wages ^[29b].
 - Reasonableness looks at market pay, hours, duties, skills, location, etc. ^[35b]. Current BLS data put median NP wages around \$60-\$65 hour, or ≈ \$125 k for full-time. If you work full-time you cannot push salary too low.
 - For a solo NP practice netting \$125 k, a defensible salary range is usually **\$70 k–\$85 k**, leaving \$40 k–\$55 k for profit distributions.
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Example

Assumptions

- Net profit before any owner pay: \$125,000
- NP takes \$80,000 salary (inside “reasonable” range)
- Filing status: Single (standard deduction \$15,750)
- State tax ignored for simplicity

	Sole-prop (Sch C)	S-Corp (Form 1120-S)
Net profit before taxes	\$125,000	\$125,000
Less: W-2 salary	–	– \$80,000
Corp FICA (7.65 %)	–	– \$6,120
Distributable profit	–	\$38,880 (after Corp FICA deduction)
Self-employment (or payroll) tax	\$125 k × 0.9235 × 15.3 % ≈ \$17,700 ^[41f]	Salary × 15.3 % = \$12,240 (half employee, half employer)
Income subject to ordinary tax	\$125,000	\$118,880 (salary + distribution – ½ SE tax)
20 % §199A deduction	– \$25,000	– \$ 7,776 (20 % of distribution)
Taxable income (before std. deduction.)	\$100,000	\$111,104
Fed. income tax (2025 tables)	≈ \$17,650	≈ \$19,000
Total federal tax	\$35,350	\$31,240
Employment-tax savings	–	\$5,460
Extra admin costs (payroll, 1120-S, etc.)	–	~ \$2,500–\$3,000/yr ^{[16g] [43i]}
Net annual benefit	baseline	≈ \$2,500–\$3,000

Even after paying a bookkeeper or CPA, the S-Corp leaves a few thousand dollars more in your pocket each year. If your practice ever grows above \$175 k–\$200 k net, the savings scale up quickly because distributions increase while salary and administrative costs rise slowly.

• Other considerations

- **State “professional” rules:** Some states (e.g., CA) impose a flat franchise tax (1.5 % of S-Corp net, \$800 min.) that shrinks savings ^[41e].
- **Audit risk:** IRS audit rate for S-corps is lower than for sole proprietors, but officer-compensation is a hot issue—keep contemporaneous compensation analyses and board minutes ^[35k].
- **Payroll discipline:** You must run regular payroll, remit federal/state withholding, and file Forms 941/940 and W-2s.
- **Retirement planning:** A higher W-2 salary lets you defer more into a Solo 401(k) employee deferral; too low a salary may cap retirement contributions.
- **Liability insulation:** A PC/PLLC or LLC taxed as an S-Corp does not protect against professional malpractice, but it does shield personal assets from ordinary business contracts and debts ^[40i].

- **Decision framework for a \$125K NP practice**

Question	If "Yes"	Comment
Is net profit expected to stay above ~\$65 k?	✓	Saves > admin costs ^[41u] ^[18h] .
Is a \$70-\$85 k salary defensible?	✓	Matches market pay for an NP; meets IRS test ^[29b] ^[35b] .
Will you run compliant payroll & bookkeeping?	✓	Mandatory for S-corp.
Does your state allow PC/PLLC or LLC S-corp for NPs at reasonable cost?	✓	Watch for franchise or gross-receipts taxes.
Comfortable filing Form 1120-S or paying a CPA ~\$1.5 k?	✓	Adds cost but time savings.

*If you can check all boxes, an S-corporation election beginning **1 January 2026** (file Form 2553 by 15 March 2026) should be worthwhile. Otherwise, remain a Schedule C sole proprietor for now and revisit once profits rise or administrative support is in place.*

Bottom line:

With \$125 k of annual net income, the typical nurse-practitioner owner can **trim roughly \$3,000 per year in federal taxes after fees** by operating through a PC/PLLC or LLC that elects S-status—so long as she (1) pays herself a market salary, (2) stays current on payroll filings, and (3) watches for any state-specific franchise taxes that could offset the savings.

References

- [4c] - <https://www.law.cornell.edu/uscode/text/26/1361>
- [16g] - <https://wcginc.com/business-formation-services/s-corp-election/>
- [18h] - <https://www.gethealthie.com/blog/llc-vs-s-corp>
- [29b] - <https://www.irs.gov/businesses/small-businesses-self-employed/s-corporation-employees-shareholders-and-corporate-officers>
- [35b] - <https://blog.accountingprose.com/reasonable-compensation-for-s-corp-officers>
- [35k] - <https://blog.accountingprose.com/reasonable-compensation-for-s-corp-officers>
- [40d] - <https://www.praxhealth.com/guides/how-nurse-practitioners-can-benefit-from-s-corporation-status>
- [40i] - <https://www.praxhealth.com/guides/how-nurse-practitioners-can-benefit-from-s-corporation-status>
- [40m] - <https://www.praxhealth.com/guides/how-nurse-practitioners-can-benefit-from-s-corporation-status>
- [41e] - <https://sdcorporatelaw.com/business-newsletter/what-tax-benefits-does-a-california-professional-nursing-corporation-provide/>
- [41f] - <https://sdcorporatelaw.com/business-newsletter/what-tax-benefits-does-a-california-professional-nursing-corporation-provide/>
- [41u] - <https://sdcorporatelaw.com/business-newsletter/what-tax-benefits-does-a-california-professional-nursing-corporation-provide/>
- [43l] - <https://pieceofwealthplanning.com/s-corp-physician-5-things-to-consider-before-making-the-election/>
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