

Business structure checklist for California LMFTs

Presented by Heard for CAMFT members. Use this to take notes during the session and to plan your next steps after.

The short version

In California, your practice is a sole proprietorship by default, and a professional corporation is the only other option. An S corp is a tax designation you can add to that corporation, and its appeal comes down to one trade: pay yourself a salary, and only that salary is subject to self-employment tax.

2 options

Sole proprietor or professional corporation. California does not let therapists practice through an LLC or PLLC.

15.3%

Self-employment tax on all practice profit as a sole prop. As an S corp, you pay it on your salary only.

\$100,000+

Annual profit where S corp savings start to significantly offset costs. The line runs higher in California.

\$5,040

Average first-year cost of an S corp in California, then about \$3,040 a year after.

Jan 1, 2027

The clean start date. Form your corporation in Q4 with this effective date.

Mar 15, 2027

Deadline to file Form 2553 with the IRS and elect S corp status for 2027.

Entity basics for California LMFTs

- **Entity vs. tax designation.** Your business entity is the legal structure California recognizes. Your tax designation is how the IRS taxes it. Related, but governed separately.
- **Sole prop is the default.** With nothing filed, you're a sole proprietor. Most therapy practices are pass-through businesses either way: profit lands on your personal tax return.
- **Liability.** A sole prop has no separation between you and the business. A professional corporation separates the two, though you stay personally responsible for your own malpractice.
- **Who can incorporate.** Licensed professionals only. Every shareholder in the corporation must be licensed in California.
- **The upkeep.** Formation filing, an annual Statement of Information, a corporate tax return, California's franchise tax, and a business bank account in the corporation's name.

This week: see if an S corp fits

- ☐ Pull your Profit & Loss statement. Profit is the same as net income (what's left after expenses).
- ☐ Project your 2026 profit: divide your profit through August by eight, then multiply by 12. If you opened mid-year, adjust for the months you've been in practice.
- ☐ Compare against the benchmark: \$100,000+ in annual profit is where savings begin to significantly offset costs. In California, the franchise tax nudges that line a little higher.
- ☐ **Get a personalized savings assessment** before committing to the extra cost and complexity.

Annual profit	Potential tax savings*	Worth it in California?
\$75,000	\$2,295	Costs outweigh savings
\$100,000	\$6,120	About \$3,080 ahead per year
\$150,000	\$13,770	Substantial savings

*Assumes a \$60,000 reasonable salary and about \$3,040 in annual S corp costs. Your salary and situation will change these numbers.

Your numbers

Profit through August: \$_____ Projected 2026 profit: \$_____

Reasonable salary estimate: \$_____ Estimated annual savings: \$_____

Notes: _____

Your timeline to a January 1, 2027 S corp

The calendar, not the paperwork, is what usually costs people a year. Deciding now means you can form in Q4 and start clean on January 1.

When	What to do	Why it matters
Now	Run the numbers	Your 2026 profit to date, and where you expect to land, drives everything else.
Q4 2026	Form the corporation	Choose a lawyer or online service and file articles effective January 1, 2027.
January 2027	Set up the basics	Adopt bylaws, get your EIN, and open the business bank account.

When	What to do	Why it matters
By March 15, 2027	Elect S corp status	File Form 2553, due within two months and 15 days of the start of the tax year.
By March 15, 2027	Set up and run payroll	Paying yourself a salary through payroll is a requirement as an S corp.

Form your professional corporation (Q4 2026)

S corp is a tax designation, so the corporation comes first. If you're planning a January election, this is Q4 work.

- ☐ Name it to Board of Behavioral Sciences rules: “[Your Name] Marriage & Family Therapy, Inc.”
- ☐ File Articles of Incorporation, Form ARTS-PC (\$100), with a lawyer or an online service
- ☐ Set a future effective date, like January 1, 2027, so your S corp year starts clean
- ☐ Name a California agent for service of process
- ☐ Adopt bylaws. Every shareholder must be licensed
- ☐ Get a new EIN from the IRS. Your sole prop EIN doesn't move with you
- ☐ File your Statement of Information (Form SI-550) within 90 days
- ☐ Open a business bank account in the corporation's name

Elect S corp status (by March 15, 2027)

- ☐ File Form 2553 with the IRS
- ☐ Mind the deadline: March 15, 2027 for a corporation that starts January 1, or two months and 15 days after your corporation's start date
- ☐ Watch for Form CP261 from the IRS confirming your election, usually within 60 days

Tip Start your S corp on January 1 so you avoid a split year of sole prop and S corp books.

Stay compliant as a California S corp

- ☐ Pay yourself a reasonable salary as a W-2 employee, based on your experience, license level, location, and role. Research yours on Glassdoor, PayScale, or Salary.com
- ☐ Set up payroll software to withhold and remit payroll tax (about \$45 a month)
- ☐ File Form 1120-S with the IRS and Form 100S with California each year. Both are normally due March 15
- ☐ Budget for California's franchise tax: 1.5% of the corporation's net income or \$800, whichever is greater
- ☐ File your Statement of Information every year

- ☐ Adopt an accountable plan for reimbursements

Not ready for an S corp yet?

Most therapists begin as sole props, and that's a fine place to be. These four moves lower your tax bill now and set you up for a smooth transition later.

- ☐ Claim the deductions you already qualify for: home office, mileage, supervision, licensure, CEUs, professional dues
- ☐ Open a retirement account. A Solo 401(k) or SEP IRA lowers your taxable income now
- ☐ Dial in quarterly estimates. Set aside a percentage of every payment as it lands so April holds no surprises
- ☐ Track your profit monthly so you know when you're nearing the S corp threshold

Know where your money is, and when an S corp will save you more

Heard handles bookkeeping, taxes, and banking for therapists in private practice, with a personalized S corp savings assessment before you commit to the extra cost and complexity, and election support if it's right for you.

[Book a free consult →](#)

CAMFT members: save 15% on any annual Heard plan (up to \$612), plus get your 2026 year-to-date books caught up for free (a \$792 value) when you sign up the same day as your consult. Mention this webinar during your consult.

Resources

- [Is your practice ready for an S corp? Quiz](#)
- [S corp savings calculator](#)
- [The complete S corp guide for therapists](#)
- [How to choose a business entity for your practice](#)
- [How to start a therapy practice in California](#)