**8799. What is a professional service corporation (PSC)? Is there any difference between the tax treatment of C corporations and PSCs?**

Organizations of physicians, lawyers, and other professional people organized under state professional corporation or association acts are generally treated as corporations for tax purposes.[[1]](#footnote-1) However, to be treated as a corporation, a professional service organization must be both organized and *operated* as a corporation.[[2]](#footnote-2) Although professional corporations are generally treated as corporations for tax purposes, they are not generally taxed in the same manner as regular C corporations (Q 8779). Note that if a professional corporation has elected S corporation status, the shareholders will be treated as S corporation shareholders (see Q 8789).

Although a professional corporation is recognized as a taxable entity separate and apart from the professional individual or individuals who form it, the IRS may under some circumstances reallocate income, deductions, credits, exclusions, or other allowances between the corporation and its owners in order to prevent evasion or avoidance of tax or to properly reflect the income of the parties.

Under IRC Section 482, such reallocation may be made only where the individual owner operates a second business distinct from the business of the professional corporation. Reallocation may not be made where the individual works exclusively for the professional corporation.[[3]](#footnote-3)

1. . Rev. Rul. 77-31, 1977-1 CB 409. [↑](#footnote-ref-1)
2. . *Roubik v. Comm.*, 53 TC 365 (1969). [↑](#footnote-ref-2)
3. . *Foglesong v. Comm.*, 82-2 USTC ¶9650 (7th Cir. 1982). [↑](#footnote-ref-3)