**8776. What is a C corporation?**

A corporation is a business entity that is treated as an artificial “person” created under state law and granted the right to engage in business by a charter issued by the state.

**Planning Point:** The corporation will have a “corporate designator” in its name so that people who do business with the entity will know it is a corporation. Some corporate desginators include: incorporated, corporation, company, limited, or an abbreviation thereof. These designators must appear at the end of the corporate name. The idea is to let people who are doing business with an entity know the form of entity with which they are dealing.

As a person, the corporation may sue and be sued, it may buy, sell, and own property in its corporate name, and it may carry on any activities appropriate to the conduct of its business. Thus, property of the corporation along with its debts and liabilities are those of the corporation—not those of the stockholders who own it. As a result, the corporation is also taxed as a separate entity—its tax liabilities are separate and distinct from its stockholder-owners.[[1]](#footnote-1)

The corporation’s existence is separate from the individuals who own and manage it. It has only the powers expressly or impliedly conferred upon it by the state. A corporation is considered to be a “C” corporation if it is an entity that is incorporated under the laws of one or more states *unless* it has filed an election to be treated as an “S” corporation (see Q 8789). In general, this discussion will refer to C corporations as “corporations” and S corporations as “S corporations.” Whether a corporation is a C corporation or an S corporation depends upon a tax election. The non-tax characteristics of these two types of corporations are the same.

Both publicly traded and closely held corporations may be organized as C corporations. A closely held corporation (also referred to as a “close” or “closed” corporation) is one that is owned by one individual or a small number of individuals. The stock of a closely held corporation has a very limited market and will not ordinarily change hands except at the death or retirement of a stockholder or in case of some other major realignment within the company.

The opposite of the closely held corporation is the “publicly held corporation.” A publicly held corporation is owned by a substantial number of shareholders, most of whom take no part in the active management of the corporation. Typically, a publicly held corporation is a large corporation whose stock is traded on a stock exchange or on the over-the-counter market.

See Q 8777 for a discussion of the formation of a corporation. Q 8779 discusses the tax treatment of a corporation. See Q 8789 to Q 8796 for a discussion of issues specifically applicable to S corporations.

1. . See IRC Sec. 11. [↑](#footnote-ref-1)