Why **business deductions are NOT the same** for a sole proprietorship versus a PC/PLLC taxed as an S-Corp.

This is one of the biggest misunderstandings among physicians working as 1099 contractors.

Short Answer

Business deductions are NOT identical between sole proprietors and S-Corps.
Many deductions are similar, but **some major tax strategies only become available once you operate as a corporation**, especially a **PC/PLLC taxed as an S-Corp**.

The biggest differences appear in:

- **How deductions are structured**
- **How reimbursements are treated**
- **Which deductions survive audit scrutiny**
- **Whether personal-use assets can be legitimately reimbursed**
- **Whether the Augusta Rule can be used**

A sole proprietor can take many "ordinary and necessary" business deductions, but **an S-Corp unlocks an entirely different category: the accountable reimbursement plan (ARP)**.

And that is where the power is.

THE 3 BIGGEST DIFFERENCES

1. The Augusta Rule

→ Only reliably allowed for corporations (S-Corp, C-Corp)**

Sole proprietors *can* theoretically try to use it, but IRS guidance and audit case law overwhelmingly favor **corporate entities**, because:

- A corporation is separate from the owner
- A corporation can "rent" the owner's home for legitimate business use
- The corporation must keep meeting minutes and issue rental checks
- The owner must report **$0 income** legally under §280A(g)

Sole proprietors fail on the separation requirement.

Bottom line:
Sole proprietor use = red flag
S-Corp use = clean, defensible, widely used

Home Rental (Augusta Rule) is an S-Corp advantage.

2. Accountable Reimbursement Plans (ARPs)

→ A MASSIVE advantage for corporations**

A sole proprietor does *not* get to reimburse themselves tax-free.
When they pay business expenses personally, the line between "personal" and "business" is blurred and harder to defend.

But an S-Corp can create an **IRS-compliant Accountable Plan** that allows:

- Cell phone reimbursement
- Internet reimbursement
- Home office reimbursement
- Travel
- Meals
- Mileage
- Continuing education
- Licensing fees
- Medical equipment

- Software
- Family employee reimbursements
- Private school/educational reimbursements (under §127 plans)
- Health insurance reimbursement (if structured correctly)

These reimbursements become:

- **Tax-free to you**
- **100% deductible to the S-Corp**

This structure does NOT exist for sole proprietors.

This is why ARPs are one of the top advantages of a micro-corporation.

3. Retirement plan design is profoundly different

We've already covered this with Jim, PC/PLLC taxed as an S-Corps allow:

- Better control of **compensation**
- Higher allowable **employer contributions**
- More predictable inputs needed for **Cash Balance Plans**
- Cleaner eligibility for **owner–spouse W-2 inclusion**
- No reduction in compensation from SE-tax adjustments

These are **deduction differences**, because retirement contributions are business deductions.

A sole proprietorship is structurally limited by net earnings calculations.

SECONDARY, BUT STILL SIGNIFICANT DIFFERENCES

4. Health benefits are treated differently

- Sole proprietors deduct premiums on Form 1040, not as business expenses

- S-Corps can run premiums through payroll or an HRA/QSEHRA
- S-Corps allow **spousal premiums** via family employee strategies

5. Family payroll strategies (income shifting)

S-Corp:

- Can hire spouse or children
- Wages are deductible
- Creates Roth IRA/solo 401(k) eligibility
- Allows §127 educational assistance
- Creates FICA-advantaged pathways

Sole proprietor:

- Can hire family, but with dramatically more scrutiny
- Cannot run §127 educational reimbursements
- Cannot integrate family into corporate HR benefits

6. Fringe benefits expand dramatically inside corporations

- FSA
- Dependent care accounts
- Commuter benefits
- Certain insurance plans
- Educational assistance
- Adoption assistance

Sole proprietors are excluded from many of these.

Putting It All Together:

Side-by-Side Deduction Comparison**

Deduction / Strategy	Sole Proprietor	PC/PLLC taxed as S-Corp	Notes
Ordinary business expenses	✔ Yes	✔ Yes	Basic deductions are similar
Cell phone reimbursement	✖ No (indirect only)	✔ Yes (Accountable Plan)	Tax-free via ARP only in S-Corp
Internet reimbursement	✖ No	✔ Yes	Same reason as above
Home office reimbursement	✖ No (Schedule C only)	✔ Yes (ARP method or rent method)	More flexible + cleaner documentation
Home rental (Augusta Rule)	⚠ Risky, rarely allowed	**Fully allowed & defensible**	Major advantage of S-Corp
Healthcare reimbursement plans (ICHRA/HRA/QSEHRA)	✖ Limited	✔ Yes	Corporations have much broader options
Family payroll strategies	✔ Limited	**Powerful & clean**	Enables income-shifting + benefits
Private school reimbursement (§127)	✖ No	✔ Yes	Only as corporation
Larger retirement contributions	⚠ Limited by SE tax	**Much higher potential**	Cash Balance Plans favor S-Corp
Vehicle reimbursement (mileage)	✔ Yes	✔ Yes	Same
Mileage + ARP	✖ Not available	✔ Yes	S-Corp advantage
CME & travel	✔ Yes	✔ Yes	Same
International CME	✔ Yes	✔ Yes	Same
Health, life, disability insurance	✔ Yes (personal deduction only)	✔ Yes (corporate strategy options)	S-Corp gets structural advantages

Summary

Sole proprietors and S-Corps both deduct ordinary expenses, but S-Corps open an entirely different category of deductions—accountable-plan reimbursements, home rental (Augusta Rule), structured health and fringe benefits, family-employee strategies, and retirement contribution maximization. These corporate-only mechanisms do NOT exist for sole proprietors.