

Is your business structure built for growth?

Why 2026 is the year Utah companies should re-evaluate their entities.



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Utah's economy continues to outpace much of the nation and its legal-tax environment is evolving as well. For many business owners, 2026 represents the optimal window to step back, assess their legal structure and tax election and ensure the foundation supports the next chapter, not just the startup phase.

Starting strong: Form the right entity from the beginning

When entrepreneurs launch a venture, the choice of entity sets the tone for capital raising, ownership, liability and tax treatment. A newly-formed business in Utah has options. For those anticipating outside investment or growth at scale, forming a Delaware C-Corporation remains the industry norm; investors and venture firms expect standardized governance, preferred-stock classes and exit-friendly mechanics, and tax benefits. Utah's recently-lowered corporate rate (4.50% for tax years beginning Jan. 1, 2025) helps close the traditional tax gap between C-Corporations and pass-through entities.

On the other hand, many founders prefer starting as a Utah LLC. A Utah LLC is flexible, cost-effective, and by default, taxed as a partnership (or you can elect corporate treatment). An LLC allows founders to maintain voting control while issuing non-voting or profits-interest units to key employees. If the business doesn't immediately need complex capital structures, an LLC can deliver tax efficiency and operational simplicity.

Growing pains? Time to restructure

Companies that initially picked a simple structure often find it increasingly constraining as operations expand, raise capital, go multi-state or build for sale. That's when the right structure evolves into a strategic tool instead of a legacy burden. A growing Utah-based company may need to convert an LLC into a C-Corporation to issue preferred shares, bring on institutional investors or prepare for exit. Alternatively, a company may retain its LLC status but restructure through a holding-company model, separating real-estate or IP assets into subsidiaries to isolate risk and optimize apportionment under Utah's single-sales-factor system. Utah's updated apportionment and nexus rules, effective for 2025 returns, further motivate smart entity planning now.

Tax election: S-taxation and its limits

Beyond entity choice lies the key decision of tax election. Some corporations or eligible LLCs elect S-taxation, electing to pass profits and losses through to owners' tax returns and avoiding entity-level federal tax. This can be an efficient structure for closely held companies with predictable cash flow and minimal outside investment. But it comes with limitations: one class of stock, fewer than 100 U.S. individual shareholders, no entity or foreign shareholders. These restrictions often impede growth equity or preferred-stock features, prompting conversion to a C-Corporation when capital needs change.

Why 2026 is the right time

With Utah's corporate tax rate now 4.50% for tax years beginning Jan. 1, 2025, and updated rules around apportionment, combined reporting and sales-tax nexus, the timing is ripe to review your entity structure while laws are settled and market conditions are calm. Whether you're forming a new entity or restructuring an existing one, 2026 offers a clean milestone for alignment. Small adjustments today, such as adopting a profits-interest plan, revising the operating agreement or converting entity type, can save major headaches ahead.

Strategic takeaway

Your entity form and tax election are far more than legal checkboxes—they are strategic building blocks for ownership, governance, capital raising and exit value. Utah companies scaling, diversifying or preparing for institutional investment should be aware that the businesses that outperform are those with intention behind their structure. They review, refine and align before growth forces the issue.

Forming the right entity at launch matters. Even more important is recognizing when your business has outgrown its foundation. Use 2026 as the pivot point. Review your entity, adjust your tax election and position your company not just for today but for the next growth chapter.