

TAX IMPLICATION OF SMALL BUSINESSES

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TYPES OF LEGAL ENTITIES

- ◉ Sole Proprietorship
- ◉ Partnership
- ◉ S-Corporation
- ◉ C-Corporation
- ◉ LLCs

SOLE PROPRIETOR

- ◉ No formal legal filings to set up
- ◉ Self Employed
- ◉ File Schedule C

SELF EMPLOYED

- ◉ You can register your DBA with the County
- ◉ You can have more than one DBA
- ◉ You report your business on Schedule C of your personal tax return

SCHEDULE C

- Pay taxes on your personal tax return
 - Ordinary Taxes at your individual tax rate
- Subject to Self Employment tax
 - 15.3% Social Security and Medicare
 - ½ Self Employment tax is an add back on front of return

PARTNERSHIP

- ◉ No Formal Legal Document Required
- ◉ File Form 1065
- ◉ “Flow Through” Entity
- ◉ Partners receive a K-1 for their ownership %

PARTNERSHIP

- ◉ Ordinary Income is subject to Self Employment Tax
 - Ex. CPAs
- ◉ Passive Income is not subject to Self Employment Tax
 - Ex. Rental Income

S - CORPORATIONS

- ◉ Legally formed as a C - Corporation
- ◉ Elect to be taxed as an S-Corporation by filing Form 2553
- ◉ File Form 1120S
- ◉ “Flow Through” Entity
- ◉ Owners receive a K-1 and pay taxes on their individual tax return

S-CORPORATIONS

- ◉ Subject to Ordinary Income Taxes
- ◉ Ideally 60% Self Employment 40% Ordinary Income
- ◉ Example
 - Income 100,000
 - Wages 60,000
 - Net 40,000 (Reported on K-1)

S-CORPORATIONS

- ◉ Owners Can Received Distributions
- ◉ Cannot Payout Distributions in Excess Equity
- ◉ Distributions MUST be equally distributed at % Ownership

C-CORPORATIONS

- ◉ Legally a C-Corporation
- ◉ File Form 1120
- ◉ Taxes paid at the Corporate level
 - Graduated Tax Table
- ◉ No Preferential Tax Rates

C-CORPORATIONS

○ “Double Taxation”

- Built In Earnings can be distributed as Dividends
- Pay Tax on Operations at the Corporate Rate
- Dividends are Taxed to Stockholders at current Capital Gain Rate

LLC OR PLLC

Limited Liability Corporation or Professional Limited Liability Corporation

- ⦿ One member
 - Disregarded Entity - File Schedule C
- ⦿ Two or more members
 - Partnership Form 1065 (most commonly)
 - Corporation Form 1120
 - S-Corporation Form 1120S

CKP

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