

# Basic Business Entities

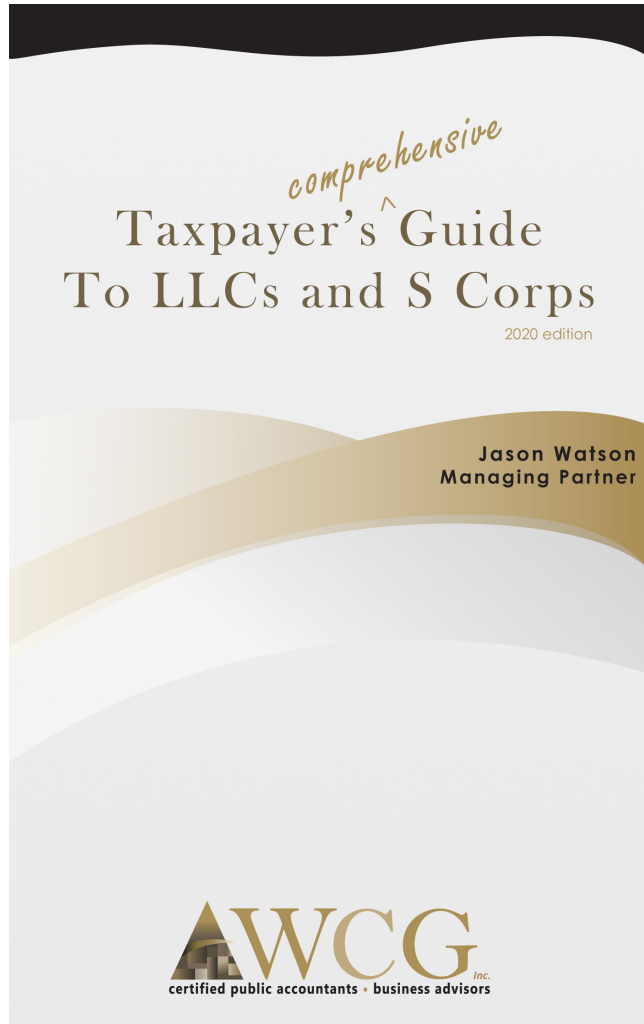
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*a tax and business consultation firm*



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**2020 Edition!**

# Basic Business Entities

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- ▲ Sole Proprietor
- ▲ Single-Member Limited Liability Company (SMLLC)
- ▲ Multi-Member Limited Liability Company (MMLLC)
- ▲ Limited Liability Partnerships (LLP)
- ▲ General Partnership (GP)
- ▲ **C Corporation**
- ▲ PLLC and PC

- ▲ Low Popularity
- ▲ Form 1120 (corporation tax return)
- ▲ Double Tax Still Exists
  - 21% Corporate Tax Rate
  - 10 to 23.8% Dividend Tax Rate (3.8% is Medicare surtax)
- ▲ Old School Payroll Concerns (C v. S)
  - Prior to TCJA, C Corps Had High Owner Salaries
  - S Corps Want Low Owner Salaries

# C Corp Tax Inefficiency

S Corp Income	<b>100,000</b>	<b>200,000</b>	<b>300,000</b>
Salary	40,000	80,000	120,000
Payroll Tax	6,120	12,240	18,360
Income Tax	6,980	24,150	44,266
Total Tax S Corp	13,100	36,390	62,626
C Corp Income	<b>100,000</b>	<b>200,000</b>	<b>300,000</b>
C Corp Tax	21,000	42,000	63,000
Dividends	79,000	158,000	237,000
Dividend Tax	0	23,700	44,556
Total C Corp Tax	21,000	65,700	107,556
Effective S Tax Rate	13.1%	18.2%	20.9%
Effective C Tax Rate	21.0%	32.9%	35.9%
Delta (extra tax because of C Corp)	<b>7.9%</b>	<b>14.7%</b>	<b>15.0%</b>

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**Yuck!**



## ▲ Benefits

- Keep Income Off 1040
- Venture Capital (golden rule)
- Employee Ownership
- Looser Governance (typically favor majority rule, voting)

## ▲ Professions

- Accounting
- Law
- Engineer
- Physician
- There might be others depending on state

## ▲ States

- Colorado, Texas Allows Both PLLC and PC
- California Only PC

- ▲ S Corp Is Not an Entity
- ▲ Tax Election on an Underlying Entity
- ▲ Form 1120S (S corporation tax return)
- ▲ For LLC, Reduces Social Security and Medicare Taxes
- ▲ For C Corp, Eliminates Double Tax (pass-thru taxation)

*deep dive with several videos*

- ▲ Entity Selection
- ▲ Most Choose LLC, C Corp in Some States (California)
- ▲ S Corp Tax Election
- ▲ Multi-Entity Structures (several videos)

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