

Individual Federal Income Tax

GROSS Income -- \$100,000 [tax ≈ \$18,000]
minus standard or itemized DEDUCTIONS
[state/local tax, mortgage %, charity, etc.] ≈ \$20,000
equals TAXABLE income -- \$80,000
tax = \$13,500

Adding “Schedule C” Business-Related Deductions from Biz Income

GROSS Income -- \$100,000 [tax ≈ \$18,000]

BUSINESS-ONLY deductions:

\$20,000 wages to an employee
\$10,000 rent for her storefront
\$2000 office supplies
\$1500 business insurance
\$1000 electricity, water and other utilities
\$500 advertising and business travel
\$3000 interest on business loan of any kind
\$2000 “depreciation” on truck used in biz
TOTAL = \$40,000

NET business income = \$60,000

minus standard or itemized DEDUCTIONS
[state/local tax, mortgage %, charity, etc.] ≈ \$20,000

equals TAXABLE income -- \$40,000 **tax ≈ \$4700**

and 2017 TCJA creates 20% deduction from QBI

[20% of \$60,000 QBI = \$12,000; net business income = \$48,000]

minus standard or itemized DEDUCTIONS
[state/local tax, mortgage %, charity, etc.] ≈ \$20,000

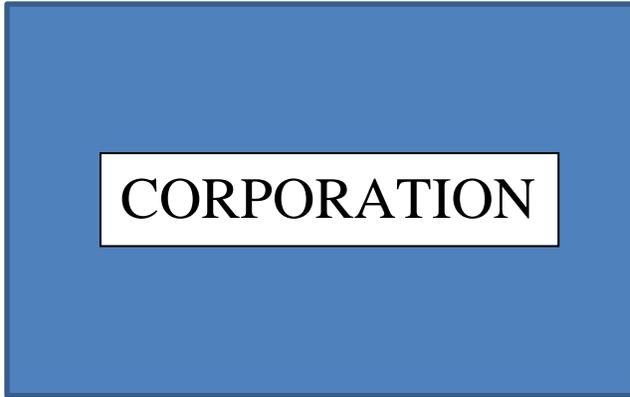
equals TAXABLE income -- \$28,000 **tax ≈ \$3000**

SOLE PROPRIETORSHIP = proprietor (personal Schedule C)

business tax = personal tax

Corporate Double-Taxation and “Sub-chapter C”

GROSS Income -- \$100,000



Biz DEDUCTIONS

\$20,000 wages to an employee
 \$10,000 rent
 \$2000 office supplies
 \$1500 business insurance
 \$1000 utilities
 \$500 advertising, business travel
 \$3000 interest on business loan
\$2000 “depreciation” on truck
 TOTAL = \$40,000

NET business income =

\$60,000 @ 21% corp tax = \$12,600

IF THE CORP PAYS A DIVIDEND



SHAREHOLDER(S)

net dividend to shareholder(s) -- \$47,400 ←

minus personal itemized DEDUCTIONS ≈ \$20,000

equals personal TAXABLE income -- \$27,400

@ qualified dividend (capital gains) rate of 15% *dividend tax* = \$4110

Total “double tax” = \$12,600 corp tax + \$4110 personal tax = \$16,710

5½ TIMES the tax of the individual sole proprietor!

Partnership Pass-Through Taxation and “Sub-chapter K”

GROSS Income -- \$100,000

Business DEDUCTIONS

\$20,000 wages to an employee
 \$10,000 rent
 \$2000 office supplies
 \$1500 business insurance
 \$1000 utilities
 \$500 advertising, business travel
 \$3000 interest on business loan
\$2000 “depreciation” on truck
TOTAL = \$40,000



PARTNERSHIP

ALL income and deductions (profits/losses) pass through partnership and allocated to partners (form K-1) ... whether or not cash is actually distributed ...



PARTNERS

NET TAXABLE business income =	\$60,000	
minus 20% <i>QBI pass-through</i> deduction	\$12,000	
minus personal itemized DEDUCTIONS	≈ \$20,000	
equals personal TAXABLE income --	\$28,000	personal income tax = \$3000

Almost \$14,000 less (18%!) same scenario with C-corp double tax . . .

Corporation Pass-Through Taxation and “Sub-chapter S”

S-Corporation taxed largely as a partnership (with significant detailed differences), but . . .

- unanimous shareholder election of S-Corporation status within 2 months of formation
- no more than 100 shareholders
- shareholders = no nonresident aliens, no non-natural (juridical) entities other than trusts
- classes of stock only for voting differences (no financial, management differentiation)
*** therefore, no unequal allocation of income/losses among various shareholder-investors

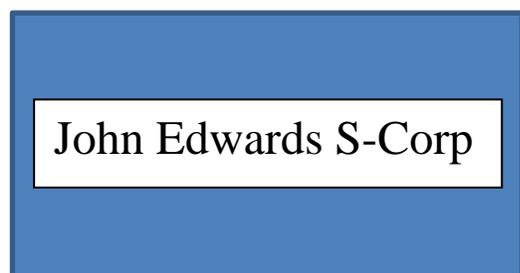
Limited Liability Companies *Choose* **“Check the Box”: Pass-Through Taxation by default**

Self-Employment Tax

GROSS Income --	\$100,000	
minus business DEDUCTIONS	= \$40,000	
minus 20% QBI pass-through deduction	= \$12,000	
minus personal itemized DEDUCTIONS	≈ \$20,000	
equals TAXABLE income --	\$28,000	INCOME tax ≈ \$3000
+ SE tax = 15.3% of \$60,000 net biz income = \$9180		TOTAL TAX = \$12,180
<i>12.4% Social Security up to \$128,400 + 2.9% Medicare unlimited</i>		

MORE THAN 4 x THE “INCOME” TAX!

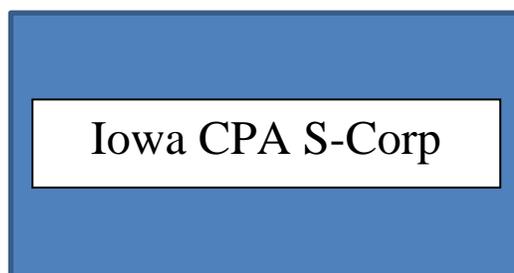
- Tax assessed on “*active*” self-employment “compensation,” but NOT “dividends” . . .
- \$ to LLC members with management authority or 500 hrs service = active = “*compensation*”
- ** \$ to S-corporation shareholders = compensation *only if so designated* “reasonably”



\$7 million annual income pass-through . . .

- \$360,000 called “salary” [avg. NC injury lawyer]
- \$6.64 million “dividend”, *no SE tax!*

[\$6.64 million X 2.9% Medicare = \$192,560/year]



\$200,000 annual income pass-thru

- \$24,000 called “salary”
- \$176,000 “dividend”, no SE tax

\$104,400 X 12.4% Social Security
+ \$176,000 X 2.9% Medicare
≈ \$13,000 + \$5000 = \$18,000/year

** salary IRS-reset at \$94,000 ...
\$106,000 still sheltered from SE tax
[\$34,400 X 12.4% Social Security +
\$106,000 X 2.9% Medicare ≈
\$7300/year]