



Tax Savings Features of C Corporations, S Corporations, and LLCs

Presented by
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A pioneer in the online legal document filing space since 1997, Nellie has helped more than half a million small businesses and licensed professionals start and maintain companies across the United States, most recently through her Inc.5000 recognized company, CorpNet. She closely follows trends in the industry and shares her wealth of knowledge across various CPA and small business communities, establishing Nellie as one of the most prominent influential experts on business startup and compliance matters.



Agenda and Goals

In this session, we will review the tax advantages and disadvantages of business entities:

- Benefits of Business Incorporation
- Overview of the C Corporation, S Corporation and LLC
- Tax Advantages and Disadvantages
- Tax Cuts and Jobs Act
- Selecting an Ideal Entity
- Steps to Get Started
- Helpful Resources

Benefits of Incorporating a Business



Benefits of Incorporating

By default, businesses operate as a Sole Proprietorship or General Partnership, both of which do not provide many benefits. It may be time to consider incorporating or forming an LLC. Here's why:

- Liability protection of personal assets
- Separate legal entity
- Added credibility
- Perpetual existence
- Tax flexibility
- Deductible expenses

Overview of C Corporations, S Corporations, and LLCs



C Corporation

- Owned by shareholders and run by an elected board of directors
- Owners often shielded from personal liability
- Can be subject to “Double Taxation”
- Typically, not ideal for small businesses unless they are going public or seeking VC funding
- Must hold annual shareholders’ meeting and directors’ meetings, document key shareholder decisions and file separate corporate income tax return

S Corporation

- S Corporation is a C Corporation or LLC that elected pass-through tax treatment with the IRS
- Must meet strict requirements with the IRS to qualify for S Corporation status
- Owned by shareholders and run by board of directors
- Must hold an annual shareholders' meeting and directors' meetings, document key shareholder decisions, and file separate corporate income tax return
- Tax designation granted by the IRS allows S Corporations to pass income through to their shareholders

Limited Liability Company (LLC)

- LLC combines elements of a Sole Proprietorship, Partnership, and Corporation
- Helps shield owners from personal liability
- Less complex to run
- Simple to form and maintain

Business Formation Overview

C Corporation

The C Corporation is the most common form of corporate entity
The C Corporation is owned by shareholders
The shareholders elect a board of directors to create and direct the high-level policies of the business

S Corporation

An S Corporation is different from a C Corporation in two significant ways:
(1) An S Corporation makes an election to be taxed as a “pass-through entity”
(2) An S Corporation has limitations on ownership

Limited Liability Company

A Limited Liability Company is a popular business structure because it combines the liability protection offered by incorporation while retaining some of the tax advantages of a Partnership or Sole Proprietorship

	Initial Filing Requirements	Annual Compliance Requirements	Registered Agent Required
C Corporation	Articles of Incorporation Initial Report (Some States) Publication Fees (Some States)	Annual Reports (Most States) Annual Meetings Meeting Minutes	Yes
S Corporation	Articles of Incorporation Initial Report (Some States) Publication Fees (Some States) Filing of IRS Form 2553	Annual Reports (Most States) Annual Meetings Meeting Minutes	Yes
Limited Liability Company	Articles of Organization Initial Report (Some States) Publication Fees (Some States)	Annual Reports (Most States)	Yes

Treatment of Foreign Owners

C Corporation	Foreigners are subject to withholding tax on the dividends from a USA C Corporation. They are also subject to treaty rate or exemption
S Corporation	Foreigners cannot be shareholders of S Corporation
Limited Liability Company	Foreign members are subject to US income tax on their share of the LLC's income Branch profits tax may also apply Subject to the new 864(c)(8)

Do you manage business incorporation and compliance activities for your organization or on behalf of your clients?

- ☐ Yes, for my organization
- ☐ Yes, on behalf of my clients
- ☐ Yes, I advise my clients
- ☐ Not currently, but I am interested in offering this service



Polling Question #1

Tax Advantages and Disadvantages



C Corporation and Tax Advantages

- Corporate income tax rate may be favorable:
 - A C Corporation's profits get taxed at the corporate income tax rate
 - In some circumstances, that might work in the business owners' favor
 - Depending on the location and shareholders personal tax situation, they might find the corporate tax rate will cost them less than if they were set up as an LLC
- Possibly more tax deduction opportunities: As a C Corporation, the business may be eligible for more tax deductions than if it were an LLC, Partnership, or Sole Proprietorship
- S Corporation options for qualifying C Corporations: Eligible C Corporations may be taxed as an S Corporation enabling them to avoid "double taxation"
- SALT deduction may apply

State and Local Tax (SALT) Deduction

- SALT limited to \$10,000
- Available until 2027
- Except property taxes paid or accrued in a trade or business or income activity
- No limit on corporate state income tax deduction

C Corporation and Tax Disadvantages

A Double Tax Hit:

- A C Corporation's profits are taxed when they are earned
- Then, any of the profits paid in the form of dividends are taxed again to the shareholders on their individual tax returns

S Corporation and Tax Advantages

- Lessens the self-employment tax burden on LLC members:
 - Only income paid to LLC members via payroll are subject to self-employment taxes
 - Profits paid as distributions are not subject to Social Security and Medicare taxes so LLC members may find that the S Corporation election lowers personal tax burden
- Enables C Corporations to avoid double taxation:
 - As an S Corporation, profits and losses flow through to shareholders' personal tax returns and are taxed at the individual tax rates
 - The corporate entity does not pay income tax
 - Shareholders that are employees of the S Corporation only pay self-employment tax on the wages or salary that the Corporation pays them
 - Dividend income paid to shareholders is not subject to self-employment tax
 - Dividends are tax free, as they are distributed from previously taxed income

S Corporation and Tax Disadvantages

- May limit growth potential: S Corporations may not have more than 100 shareholders, so growth potential may be limiting
- Reasonable compensation key: Must pay its owners reasonable compensation for the work they perform to avoid red flags with the IRS
- S Corporations not treated equally at the state level

Limited Liability Company and Tax Advantages

- Single Member LLCs: Taxed as Sole Proprietorship by default
- Multi Member LLCs: Taxed as Partnership by default
- S Corporation election option for qualifying LLCs: LLC members may elect to have their LLC treated as an S Corporation for tax purposes
- Owners choose how to distribute profits: LLC members may choose how their business will divide the company's profits and losses among its owners allowing for members to consider not only money invested but time and work invested when distributing profits

Limited Liability Company and Tax Disadvantages

- Bigger self-employment tax burden:
 - All of an LLC's business profits are subject to Social Security and Medicare taxes
 - This may create an unfavorable financial situation for LLC owners as they must pay self-employment taxes on their distributive share of the LLC's profits, even if invested back into the business
- Members of an LLC cannot be employees of an LLC

How do you currently manage business incorporation and compliance activities?

- ☐ I currently use CorpNet
- ☐ I use another filing and compliance service
- ☐ Internet research and spreadsheets
- ☐ Other



Polling Question #2

Tax Cuts and Jobs Act



The TCJA Affect on Business Entities

- The Tax Cuts and Jobs Act (TCJA), which was passed into law at the end of 2017, made tax law changes that affected every business
- Corporations and pass-through business entities have the most tax savings potential under TCJA

TCJA Changes for Corporations

Corporations feel the biggest impact from TCJA, primarily in a positive way:

- C Corporations are now taxed at a flat rate of 21% (including personal service companies)
- Still allowed to partially deduct dividends, but not as much as before TCJA

TCJA Changes for Pass-Through Entities

- Before TCJA, taxable income from Sole Proprietorships, Partnerships, S Corporations, and LLCs were simply passed through to owners and taxed at those individuals' standard rates
- Under TCJA, pass-through businesses are still taxed at individual rates, minus deduction of 20%

TCJA Changes for Pass-Through Entities

The deduction was created to lower the tax rate for these non-corporation businesses but there are stipulations:

- Deduction must be equal to 20% of the QBI earned from the business
- Much of the business' income is excluded from QBI = a smaller deduction
- QBI does not include interest, dividends, or capital gains
- Deduction restricted to the lesser of 20% QBI, or 50% of total W-2 wages
- The 20% may not apply for businesses where “the principal asset is the reputation or skill of one or more of its employees or owners”
- That includes services of health, law, accounting, actuarial science, performing arts, consulting, athletics, financial services, investing and trading

What Is Qualified Business Income?

- QBI is a business's net amount of qualified income, gain deduction, and loss.
- QBI must be effectively connected to a US business, and it is included in determining taxable income
- QBI does not include the following:
 - Investments, dividends, interest income, or capital gains
 - Compensation paid to an owner for services rendered with respect to the trade or business: guaranteed payments, reasonable compensation, payments to a partner for services rendered, or W-2 income

How frequently do you form new entities or file reports for existing entities?

- ☐ 0-4 times per year
- ☐ 5-10 times per year
- ☐ 11-20 times per year
- ☐ 20+ times per year



Polling Question #3

Selecting the Ideal Business Entity



Factors to Consider and Questions to Ask

- Do you have personal assets?
- Are you concerned about personal liability?
- Do you need to live from the business' profits each year?
- Do you want to keep paperwork and administration as simple as possible?
- Do you want to keep the business “forever”?

Choosing a State to Incorporate a Business

- Generally, it's best to incorporate in whichever state the business is located
- Sometimes there's an advantage to incorporating in a more "Corporation friendly" state like Delaware, Nevada, or Wyoming
- Nevada and Wyoming don't levy a state corporate income tax or a state personal income tax
- Delaware doesn't have a corporate income tax for businesses formed there and there's no personal income tax on non-residents
- Delaware has a separate court system for businesses and individuals
- Can't escape home-state taxes

Steps to Incorporate a Business

- Comply with licensing and zoning laws
- Conduct a business name search
- Name a registered agent
- Draft Articles of Incorporation
- File Articles of Incorporation with the state
- Write up corporate bylaws
- Apply and obtain Federal Tax ID Number
- Start a corporate records book
- Hold a first board meeting
- Complete additional federal and state requirements
- Stay compliant annually by filing Initial/Annual Reports

Helpful Resources



CorpNet Tools Are Your Resources

- Business Name Search Tool
- Interactive Business Structure Wizard Tool
- Compliance Portal With Monitoring and Proactive Alerts
- Annual Meeting Minutes Services
- Business Guides and Checklists
- The CorpNet Blog



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Would you like to learn more about working with CorpNet?

- ☐ Yes, I am interested in possibly using CorpNet within my organization
- ☐ Yes, I am interested in learning more about CorpNet's partner program
- ☐ Not at this time



Polling Question #4



Have Questions?

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