

TAX COSTS IN CHOICE OF ENTITY DECISION

The following table compares the taxes that are paid by different entities and their owners. In each case, the entity earns \$100 of net income that is of a type subject to self-employment taxes (i.e., is income from a trade or business) and distributes the entire amount (after taxes) to its owners. It is also assumed that the owner will have earned income or wages in excess of the based amount for the tax year and will therefore be subject to only the 2.9% Medicare tax (and not the 12.40% social security equivalent tax to a base of \$89,000 in 2004).

Item	C Corporation	S Corporation #	Member in Manager or Manager in Manager Managed LLC*	General Partner in General or Limited Partnership	Limited Partners in Limited Partnership or Member in Manager Managed LLC#	Sole Proprietor - ship
Entity Level						
Income	100.00	100.00	100.00	100.00	100.00	100.00
Franchise Tax (@\$1.50/\$1,000)	.15	.15	0	0	0	0
Taxable Income of Entity	99.85	99.85	100.00	100.00	100.00	100.00
Fed Income Tax (@35%)	34.95	0	0	0	0	0
State Income Tax (@6.9%)	6.90	0	0	0	0	0
Income After Tax	43.15	99.85	100.00	100.00	100.00	100.00
Owner Level						
Distribution & Share of Income	43.15	99.85	100.00	100.00	100.00	100.00
Self -Employment Tax	N/A	0/[2.90]	2.90	2.90		2.90
Taxable Income of Owner	43.15	99.85	98.55	98.55	100.00	98.55
Fed. Income tax on Dividends @15%)	6.47	N/A	N/A	N/A	N/A	N/A
Fed Income Tax on Income Allocation (@35%)	N/A	34.95	34.49	34.49	35.00	34.49
State Income Tax (@7.75%)	3.34	7.74	7.64	7.64	7.75	7.64
Amount Received After Taxes	33.34	57.16	56.42	56.42	57.25	56.42

* Assumes the entity is treated as a partnership for federal income tax purposes

A non-managing member of an LLC may not be subject to the self-employment tax; a shareholder of an S corporation is not subject to self-employment tax on actual or constructive dividends but would be subject to self-employment tax on compensation received

† One-half of the self-employment tax is deductible against the individual's income.

This publication is not intended to be a source of legal advice, and should not be relied upon as legal advice on any specific matter. Moreover, information contained in this publication may have changed subsequent to its publication. If you have a question related to this topic, please seek legal counsel regarding your particular situation.