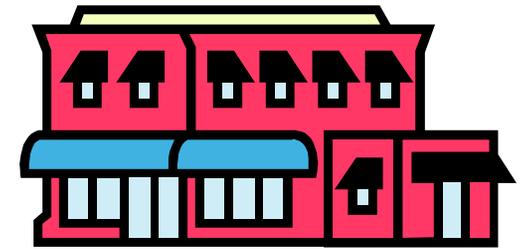


**S-Corporations—  
 Incorporating Your  
 Business**



*Proactively providing quality consulting, tax and accounting services in an environment that promotes integrity and concern for both the client and the team needs.*

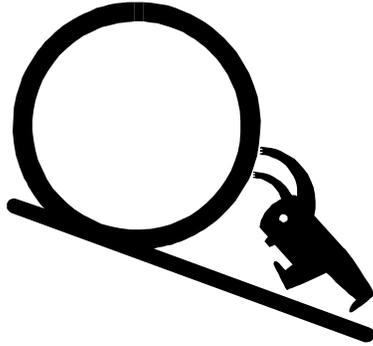
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**As a  
 Proprietorship**  
**Form 1040**

Business net income	\$	75,000
Wages (paid in cash)	\$	-
Rent (net of expenses)	\$	-
Retirement Plan Contributions	\$	-
Fringe Benefit Plan	\$	-
Health Savings/Medical Savings Health Insurance	\$	-
FICA taxes	\$	-
Corporation net income		
1/2 of self-employment	\$	(5,299)
Standard deduction	\$	(10,000)
Personal exemptions (# of exemptions 4)	\$	(12,800)
<b>Taxable income</b>	<b>\$</b>	<b><u>46,901</u></b>
Federal taxes	\$	6,305
Self-employment taxes	\$	10,597
FICA taxes (employer & employee)	\$	-
State and county taxes	\$	<u>3,055</u>
<b>Total taxes (A)</b>	<b>\$</b>	<b><u>19,957</u></b>
Annual tax savings due to becoming an S-Corporation	\$	<u>6,796</u>

**As an  
 S-Corporation**  
**Form 1040**      **Form 1120s**

Business net income	\$	-	\$	75,000
Wages (paid in cash)	\$	20,000	\$	(20,000)
Rent (net of expenses)	\$	20,100	\$	(20,100)
Retirement Plan Contributions	\$	-	\$	-
Fringe Benefit Plan	\$	-	\$	-
Health Savings/Medical Savings Health Insurance	\$	-	\$	-
FICA taxes	\$	-	\$	(1,530)
Corporation net income	\$	33,370	\$	<u>33,370</u>
1/2 of self-employment taxes	\$	-		
Standard deduction	\$	(10,000)		
Personal exemptions (# of exemptions 4)	\$	(12,800)		
<b>Taxable income</b>	<b>\$</b>	<b><u>50,670</u></b>		
Federal taxes	\$	6,871		
Self-employment taxes	\$	-		
FICA taxes	\$	3,060		
State and county taxes	\$	<u>3,230</u>		
<b>Total taxes (A)</b>	<b>\$</b>	<b><u>13,161</u></b>		



Many sole-proprietors and partners have struggled with the decision of whether to incorporate their business. It is a decision not to be taken lightly and should be made with professional assistance. The following summarizes some of the significant advantages of a S-corporation and may be used as a guide in your decision making.



### Advantages

1. Distribution to owners— Stockholders may take nontaxable distribution of profits to the extent of the stockholder's basis in their stock.
2. Self-employment tax—Profits of the corporation are not subject to self-employment taxes.
3. Limited Liability— Generally limited to the assets in the corporation. Assets of the stockholder are generally protected.
4. Continuity of life— the life of a S-corporation continues beyond the life of the stockholder.
5. Transferability of interests— Generally freely transferable. Transferability can be restricted through buy/sell agreements.
6. Loss on sale of interest— Ordinary loss are allowed to the extent of § 1244 stock. Otherwise, a capital loss is allowed.
7. Pass-through of income, losses and credits—generally, income losses and credits pass-through to the stockholder.

### Disadvantages

1. More Complex – Since the formation and the annual reporting requirements are more complex in a corporate structure, the legal and accounting fees normally incurred by the proprietor will be increased. In addition, some proprietors experience difficulty in learning to work with the corporate entity and in understanding its operations.
2. Payroll requirements— Shareholders who actively participate in the operation of the business must earn a reasonable compensation. This requires quarterly and annual filings.

