

Incorporation How It Benefits You and Your Business

Incorporation is a step numerous companies with independent contractors (ICs) are taking to reinforce the independent business relationship. This strengthens the business model.

Incorporation provides several benefits to you and your business, including:

- Limits your personal liability and protects personal assets
- Tax savings

What is a Corporation?

- A Legal Entity
- Separate from You
- Limits Your Liabilities
- Reduces Taxes

Why Incorporate?

- Protects Your Personal Assets
- Reduces Taxes on Earned Income

What's an S-Corporation?

- Created by Congress for SMB's
- Most Popular Business Entity
- Limits Your Business Liabilities
- Reduces Your Taxes

How Does It Work?

- Corp Files a Separate Tax Return
- Corp Pays No Taxes (normally)
- I.R.S. Requires You Take a Salary
- Owner's Income is Subject to Tax
- Owner Receives 2 Kinds of Income
 - 1) Salary Income (W2)
 - 2) Non-Salary Distribution (K1)
- Different Tax Treatments for Each
- Salary Distribution (W2) is Subject to Federal Income Tax AND . . . other Taxes (e.g. FICA, FUTA, etc.)
- Non-Salary (K1) Income is Subject to Federal and State Income tax
- Net Effect . . . More Income To YOU

Tax Advantages

- Non-Salary Distributions Avoids Double-Taxation
- Non-Salary (K1) Income is Taxed at Lower Personal Income Tax Rates VS. Higher Corporate Tax Rates
- Non-Salary (K1) Income is NOT Subject To Social Security and Medicare Taxes

Understanding External Requirements

- Keeping Compliant with the Secretary of State
- Annual Reports - Most states require corporations to file an annual report. Other states require a biennial statement. In either case, states typically require a fee to be paid when statements are filed. These fees range from \$10 to \$300 or more.
- Franchise Tax - Many states require domestic companies pay a franchise tax — a fee paid to the state for the privilege of operating as a corporation. States employ different formulas, which may be based on business revenue or number of authorized shares and par value, for calculating this tax.
- Due dates for annual reports and franchise taxes vary by state - Many states establish their annual report due dates to the anniversary of the corporation's or LLC's formation or qualification while other states have a universal due date for all corporation annual reports.
- Know the cost of these obligations - Because annual statements and franchise taxes represent ongoing requirements, you will need to educate yourself on all requirements prior to incorporating your business so that you can plan your budget accordingly.