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[This is not current since 2011, but I include this with the DCBA materials to give lawyers the general idea that you will need a tax person to be involved]

What Income Tax & Employer Taxes Will an Owner of an S Corporation, LLC, or C Corporation Need to Pay?

I. S Corporation or an LLC (any flow through entity):

A. *Personal Income Tax to Owners (Due on all Payments to Owners Except Loan Repayments):*

As a Shareholder, Member or Owner of the entity, you each will pay personal income tax on:

- The money you take out of the Company, either as:
 - Salary and Bonus, or
 - Shareholder Distributions from an S Corporation,
 - Dividends from an S Corporation,
 - Guaranteed Payments from an LLC, or
 - Member /Owner Distributions from an LLC.

Salary, Bonus, or Guaranteed Payments will not be double taxed, because when the business pays them to you, they are tax-deductible expenses to the business. The money that the business pays to you will reduce the business's taxable net income, which lowers the business's tax.

- The money you take out of the business as a Shareholder Distribution, Dividend, or as an LLC Member/Owner Distribution:
 - Distributions will not be double taxed because there is no tax at the corporate level in an S Corp or an LLC. Because S Corps and LLCs are flow-through

tax entities, the income is taxed only down below at the shareholder/member level, and not up above at the corporate level.

- If any Distributions you pay yourself are a repayment of a loan or expense that you previously contributed to the business, or if they are other money on which you have previously paid income tax, or if they are otherwise a return of capital, you will not pay income tax on the Distributions.
- Your share of taxable income from the business, ***whether or not you withdraw the cash to yourself in a distribution. If you leave the cash in the business as working capital, you will still owe income tax on your portion of the company's income, just as if you had taken the cash out as a distribution.***

No Tax Due on Loan Repayments:

- You will not need to pay income tax on any "loan repayment" money you take out of the company, which repays yourself for loans you made to the company (whether you loaned it at start-up, or even later in the life of the company). If you have previously taken losses against the loans, then you have used up your tax benefit of them, and they can no longer act as loan repayment money.

B. Employer Tax (Due on Some Payments to Owners)

The S corporation will also pay employer tax on:

- The money you take out of the company as Salary and Bonus.

The S Corporation will NOT pay employer tax on:

- Your share of taxable income from the entity that you did not withdraw.
- The money you take out as dividends.
- Loan repayments you make back to yourselves.

C. Self-Employment Tax Due on Payments to LLC Owners (Not on Payments to S Corps or C Corp Owners)

The single-member LLC owner will pay self-employment tax on his/her share of taxable income from the entity to the extent the owner is active in the LLC. For example, self-employment income will be deemed to apply to a company providing services, if the owner is the sole service provider. Conversely, self-employment income will not be deemed to apply to a company which invests as its business, if the owner is not providing services. (See your tax advisor for more details, this is a complex area.)

D. Federal Income Tax to the Entity

The S Corporation or LLC entity will not pay any federal income tax. (Where as a C Corporation will.)

E. Illinois Replacement Tax to the Entity

The S Corporation or LLC entity will need to pay "Illinois replacement tax", which is an entity level corporate income tax (on all S Corps, LLCs and LPs), though it is a small percent. (See your tax advisor for the rates.) (Exception is single member LLC.)

II. C Corporation (Not a Flow-Through Entity):

A. Personal Income Tax to Owners

As Shareholders of a C Corp, you will pay personal income tax on:

- The money you take out of the Company as:
 - Salary and Bonus.
 - Salary will not be double taxed, because when it's paid out to you as salary, it becomes a deductible expense to the corporation.
 - The money you take out of the company as Dividends.
 - Dividends you pay out to yourself (over and above salary) **will** be double taxed: Once at the corporate/LLC level, when the entity first pays income tax on the corporate income, and then once again at your personal income tax level when you draw it out as dividends in an after tax distribution
- You will not be taxed on any money left in the corporation at the end of the year as working capital (unlike an S Corp or LLC)

B. Employer Tax (Due on Some Payments to Owners)

The C Corporation will also pay employer tax on:

- The money you take out of the Company as Salary and Bonus.
 - Salary will not be double taxed, because when it's paid out to you as salary, it becomes a deductible expense to the corporation.
- The C Corporation will not pay employer tax on Dividends paid to C Corp Shareholders.
- The C Corporation will not pay employer tax on the money left in the company for working capital.

C. Self-Employment Tax

The C Corporation owners will not pay any self-employment tax. All income is taxed through the Corporation.

D. Federal Income Tax to the Entity

C corporation itself *will* pay any federal income tax on the corporation's net income. (Therefore, when you take out dividends (over and above salary), it will be double taxed,

once at the corporate level, and once again one you draw it out, at your personal income tax level.)

E. Illinois Replacement Tax to the Entity

C corporation itself *will* pay “Illinois income and replacement tax”, which is a corporate level corporate income tax. (See your tax advisor for the rates.)