

How to Start Your Own Business As A Military Spouse *and have it move with you*

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Administration



Legal Structure of your business – why it matters!

Presented by

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Why does it matter?

- Liability Protection
- Tax savings
 - Lower tax bracket
 - C Corporations pay only 15% tax on the first \$50,000

Why does it matter?

- Savings on Self Employment Tax
- This is the Social security and Medicare tax.
 - ❖ Employee's pay 7.65 % from wages
 - ❖ Employer matches the 7.65% for a total of 15.3%
 - ❖ Self Employment tax is 15.3% of net income

What entity type are you?

There are five basic entity types

- Sole Proprietor - Just one owner
no liability protection
- Partnership - Two or more owners
no liability protection
- C-Corporation (C-Corp) - One or more
owners – liability protection

What entity type are you?

- S-Corporation (S-Corp) - One or more owners – liability protection
- Limited Liability Company (LLC) - One or more owners – liability protection

Sole Proprietor

- Simplest form of entity
- Just hang your sign up and you are done
- Net income reported on form Schedule C
- Due on April 15th with your personal return



Sole Proprietor

- Pay Self Employment (S.E.) tax on the net income
- Do not receive a paycheck
- Can receive distributions
- Losses will lower personal income
- No liability protection
- Ownership rights do not matter

Partnership

- Formed when two or more entities come together
- No registration is required with the state
- Is a pass through entity – does not pay, the tax is passed thru to the partners

Partnership

- Files form 1065, due on April 15th which generates a K-1
- Partners pay Self Employment tax on their net income
- Do not receive a paycheck – gets a guaranteed payment

Partnership

- Can receive distributions
- Losses will lower personal income as long as you have basis
- No liability protection
- Ownership rights are determined by agreement



C-Corporation

- Formed with registration with the state
- Pay's tax on the net income
- Files form 1120, due on March 15th



C-Corporation

- Shareholders are on payroll
- No S.E. Tax but company matches SS & Med tax
- No distribution, but can receive a dividend

C-Corporation

- Limited liability protection
- Ownership rights are determined by class of stock

Biggest problem...

Double taxation

S-Corporation

- Formed when a C-Corporation chooses to have its shareholders pay the tax
- Registration is required as a corporation with the state
- Must request permission from the IRS for status – form 2553
- Is a pass through entity – tax passes to shareholders

S-Corporation

- Files form 1120s, due on March 15th –
Generates K-1 form
- Shareholder Employee's are on payroll
– Fair and Equitable Wages
- No S.E. Tax but company matches SS &
Med tax withheld
- Can receive distributions and
dividends

S-Corporation

- Losses will decrease personal income as long as you have basis
- Limited liability protection
- Can only have one class of owner, rights follow % of ownership

S-Corporation

- Lets look at an example:
 - ☞ Assume Net Income of \$100,000 in the company
 - ☞ One employee – YOU!
 - ☞ You need the full amount of the \$100k to live off of

S-Corporation

Sole Proprietor/Partnership

Salary	\$ 0
Net Business Income	\$100,000
Total subject to income taxes	\$100,000
Available for distribution	\$100,000
Subject to SE Tax (15.3%)	\$100,000
Self Employment Tax	\$ 15,300

S-Corporation

Salary	\$ 80,000
Net Business Income	\$ 20,000
Total subject to income taxes	\$100,000
Available for distribution	\$ 20,000
Subject to Fica Tax	\$ 80,000
Employee Fica Tax (7.65%)	\$ 6,120
Employer match	\$ 6,120

S-Corporation

Sole Proprietor/Partnership

Total Self Employment Tax	\$15,300
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S Corporation

Total Fica tax (same as SE Tax)	\$12,240
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S Corporation Saves \$3,060

Limited Liability Company

- Formed through registration with the state
- Is a pass through entity – tax passes to members
- Is a disregarded entity in the eyes of the taxing authorities
 - One member – follows the rules of the Sole Proprietor
 - Multiple members – follows the rules of a Partnership

Limited Liability Company

- Can choose to be taxed like a C-Corp.
 - File form 8832 entity classification form
 - Follow rules of an C-Corp.
- Can then elect to be an S-Corp.

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Business Entity Comparison

	Sole Proprietor	Partnership	LLC (default)	C-Corporation	S-Corporation	LLC (Corp)
Tax Form	Schedule C	1065	1065	1120	1120S	1120/1120S
Date Due	15-Apr	15-Apr	15-Apr	15-Mar	15-Mar	15-Mar
Who Pays	Owner	Partners	Members	Corporation	Shareholders	Corp/Shldrs
S.E. Tax?	Yes	Yes	Yes	No	No	No
Payroll	No	No	No	Yes	Yes	Yes
Distributions	Yes	Yes	Yes	No	Yes	Yes if S
Dividend	No	No	No	Yes	Yes	Yes
Class of Owners	N/A	Multiple	Multiple	Multiple	Single	Multiple/Single

Potential Tax Savings in S Corp:

Assume Net Income before Shareholder Salary  100,000.00
 Need the full \$100,000 to live on

S-Corp

Salary	80,000.00
Adjusted Net	20,000.00
You Pay 7.65% Social Security/Medicare	6,120.00
Company matches	6,120.00
Total Social Security/Medicare	12,240.00

Personal Return show income

Wages	80,000.00
S-Corp K-1	20,000.00
	100,000.00

LLC

Distribution	100,000.00
Adjusted Net	100,000.00

Personal Return show income

LLC Income	100,000.00
You Pay 15.3% SE Tax on Inc.	15,300.00
Savings in Social Security and Medicare Tax	3,060.00

*There are many factors to consider in deciding the correct business entity. The above is only a partial listing and cannot be used as the sole determining factor in making this decision. Please seek the advice of an Attorney and CPA before deciding.
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Key points to remember

- To be treated as an S-Corp from day one – file within 75 days of incorporation
- Can file under late election rules – up until the first tax filing
- All members/shareholders must agree and sign the form

Key points to remember

- S Corporation can only have one class of shareholder
- No silent investors
- Cannot give distributions to only one person
- Must treat equally based on % of ownership

Key points to remember

- Failure to follow the rules will *void the election* at the time of the failure event – when it happened
 - ☞ Any distributions would be dividends
 - ☞ Any losses taken would be disallowed
- S-Corp is not right for all businesses
- Make sure you seek competent counsel

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