

S CORPORATION VS C CORPORATION PROS AND CONS

S CORPORATION	
<u>PROS</u>	<u>CONS</u>
<p>CAPITAL GAINS RATES PAID ON CAPITAL GAINS PASSED THROUGH TO SHAREHOLDERS ARE MORE FAVORABLE THAN ORDINARY CORPORATE RATES (20% VS 21%)</p> <p>CAN DISTRIBUTE CASH TO SHAREHOLDER TAX FREE (AS LONG AS SHAREHOLDER HAS BASIS)</p> <p>THREAT OF ACCUMULATED EARNINGS TAX IS REMOVED</p> <p>POTENTIAL REDUCED TAX LIABILITY UPON SALE OF BUSINESS IF TREATED AS AN ASSET SALE (INCLUDING EXCLUSION OF CAPITAL GAINS RELATED TO SALE OF ASSETS FOR LOUISIANA INCOME TAX PURPOSES - SOME LIMITATIONS APPLY FOR THE LA EXCLUSION)</p> <p>ABILITY TO OFFSET NON-PASSIVE INCOME WITH LOSSES PASSED THROUGH FROM OTHER ACTIVITIES ON INDIVIDUAL RETURN</p>	<p>BEGINNING IN 2018, INDIVIDUAL INCOME TAX RATE IS HIGHER THAN CORPORATE INCOME TAX RATE (29.6% (37% * .8%) (IF NEW DEDUCTION APPLIES) VS 21%), SO TAX ON INCOME FROM K-1 TO SHAREHOLDER WILL BE HIGHER</p> <p>BEGINNING IN 2018, STATE INCOME TAX DEDUCTION ALLOWED ON FEDERAL INDIVIDUAL RETURNS IS LIMITED TO \$10,000 (LOSING ABILITY TO DEDUCT STATE INCOME TAXES OVER THIS THRESHOLD)</p> <p>POSSIBLE INCREASE IN INDIVIDUAL TAX RATES IN THE FUTURE</p> <p>ANY DISTRIBUTIONS IN EXCESS OF BASIS MAY BE TAXED AT CAPITAL GAINS RATES AND MAY BE SUBJECT TO THE NET INVESTMENT INCOME TAX OF 3.8%</p>

C CORPORATION	
<u>PROS</u>	<u>CONS</u>
<p>LOWER FEDERAL TAX RATE ON ORDINARY INCOME THAN IF PASSED THROUGH TO SHAREHOLDER</p> <p>SIMPLIFICATION OF FILINGS</p>	<p>DISTRIBUTIONS TO SHAREHOLDERS ARE TAXED AS DIVIDENDS TO THE SHAREHOLDER AND DO NOT REDUCE TAXABLE INCOME OF THE CORPORATION. CURRENTLY TAXED AT 23.8% (CAPITAL GAIN RATE OF 20% PLUS NET INVESTMENT INCOME TAX OF 3.8%)</p> <p>THREAT OF ACCUMULATED EARNINGS TAX (AE TAX RATE IS CURRENTLY 20%) - LIMITED</p> <p>ACCUMULATED EARNINGS & PROFITS MAY BE SUBJECT TO ADDITIONAL TAX IF S IS ELECTED AT A LATER DATE; MAY ALSO HAVE BUILT-IN GAINS TO CONSIDER IF S IS ELECTED AT A LATER DATE</p> <p>CAPITAL GAINS ARE TAXED AT ORDINARY TAX RATES (21% BEGINNING IN 2018)</p> <p>UPON AN ASSET SALE, THERE IS NO EXCLUSION FOR CAPITAL GAINS IN LOUISIANA.</p>