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2760 Cascade Springs Dr
Grand Rapids, MI 49546
(616) 608-1800
(866) 296-5911
www.weknowpayroll.com

Organizing Your Business to Minimize Your Tax Bill

When you own your own business you have many ways to organize it. Many businesses, for liability reasons, are either incorporated or a limited liability company (LLC). Both of these will protect your personal assets from company creditors or legal actions when properly utilized. There can be a significant advantage to incorporating your business, however, when it comes to taxes.

WITH A LITTLE TIME AND SOME PLANNING YOU CAN SAVE THOUSANDS OF DOLLARS EACH YEAR

Profits from an LLC are taxed in the same manner as self-employment income. This means that the taxpayer is responsible for both sides of the Social Security tax on the first \$106,800 in 2010 and Medicare tax on all earnings. These taxes equal **15.3% of every dollar earned** up to the \$106,800 limit. In addition, you'll still have to pay Federal Income tax on the earnings.

	LLC	S Corp	A subchapter S corporation or "S Corp" only pays Federal Income Tax and not Social Security or Medicare. There are a couple restrictions though. The IRS requires that S Corps pay the owners a reasonable wage for their work. That wages will have Social Security and Medicare withheld. But the math in the chart shows the possible tax.
Total Earned	50,000.00	50,000.00	
Paid as Wage	-	35,000.00	
Company Profit	50,000.00	15,000.00	
Social Security & Medicare Tax	7,650.00	5,355.00	In the example, nearly \$2,300 was saved by incorporating. With either business the owner would pay income tax on the \$50,000 but if \$35,000 is a reasonable wage for your work then the savings more than covers the costs!
Savings		2,295.00	

Incorporating your business also has other advantages. A corporation's tax return is about five times less likely to be audited than a person's return and the audit would be smaller in scope. It is easier to get credit if you are paid a wage instead of being self-employed even though you're doing the same work. Corporations also enjoy liability protection just like an LLC.

There are some costs and work to be aware of also. You'll need to incorporate your business and that costs time and a little money. The corporation will need to pay you as an employee. You can still draw other money from the business as a shareholder but you'll need to process a payroll and make tax deposits every month. The corporation will have to pay unemployment tax on your wages even though you can't collect on it. That will cost about \$300.00 per year for the first two years and go down from there. Finally, the corporation will have to file its own tax return which will possibly add a little cost to your tax preparation fees.

WE CAN HELP YOU LOWER YOUR TAXES

If the above paragraph scares you, it shouldn't. At Superior Payroll Service we can help you with everything including incorporating your business, setting up and processing your payroll, filing and paying your payroll taxes and preparing and filing your corporation's income tax returns. **Call (866) 296-5911 or email us at mritzema@weknowpayroll.com today for a free consultation about how we can help you save your money!**