

“Project S Corp”

“Considerations for incorporating your business”

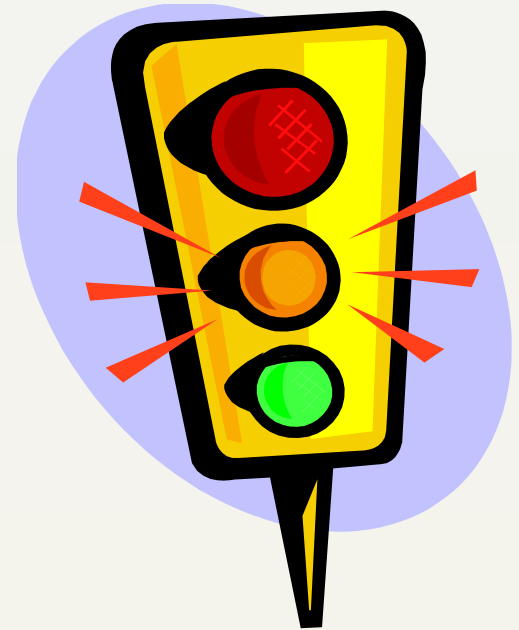
Welcome!!

Presentation Objectives

- Drawbacks of 1099
- Differences W-2, 1099, LLC, S-Corp
- Planning
- IRS Requirements
- CA Secretary of State Requirements
- Corp Papers
- Accounting for S-Corp
- Paying yourself
- Distributions
- Taxes – Corp and Personal
- Other benefits of incorporating

Disclaimer

The information contained in this presentation is provided as a public service for information purposes only, it is not legal advice and should not be relied upon in such a manner. You should consult your accountant or lawyer to address the specific circumstances of your business.



Definitions

- **W-2:** Employee, paycheck, tax withholdings
- **1099:** Independent, self employed, paid in full, responsible for “employee” and “employer” taxes, Self Employment taxes
- **LLC:** Limited Liability Corporation, multiple types, similar to 1099
- **S Corp:** Legal entity, Ongoing, has both Employees (W-2) and can employ 1099s.

Qualification for S Corp status

- Unlike a C corporation, an S corporation is not eligible for a dividends received deduction.
- Must be a liability entity (a domestic corporation which has elected to be taxed as an “S” corporation, IRS Form 2553).
- Must have only one class of stock.
- Must not have more than 100 shareholders.
 - Spouses are automatically treated as a single shareholder.

Qualification for S Corp status

- Shareholders must be U.S. citizens or residents, and must be natural persons.
- Profits and losses must be allocated to shareholders proportionately to each one's interest in the business.
- The S corporation election must typically be made by the fifteenth day of the third month of the tax year for which the election is intended to be effective.

Compare

	W-2	1099
Work and Pay	Submit Timesheet, Paycheck	Submit Invoice, Cash the check, no guaranteed payment
Payroll Taxes	Employer pays their portion of taxes, and they withhold your portion of the taxes	You are responsible for all taxes, Can pay estimates towards your Self-Employment Tax
Reporting and Paying Taxes	1040, W2	1040, Schedule C and Self Employment Tax
Health Insurance	Employer may pay part of health insurance	You must provide your own insurance
Expenses	Limits on the deduction of unreimbursed business expenses	Your business files Schedule C and pays expenses
Retirement Plan	Limited options and amounts	401K, Solo 401K, Tradition IRA, SEP IRA, Defined Benefit Plan
Liability	Very little protection	Very little protection
Annual Meeting	N/A	N/A

Compare

	LLC	S-Corp
Work and Pay	Submit Invoice, Cash the check, no guaranteed payment	Submit Invoice, no guaranteed payment, Must go through Payroll
Payroll Taxes	You are responsible for all taxes, Can pay estimates towards your Self-Employment Tax	You setup Payroll, Your corp pays their taxes and you have withholdings. You may need to make estimated tax payments.
Reporting and Paying Taxes	1040, Schedule C and Self Employment Tax	Corporation - Form 1120S Personal - 1040, Schedule E, taxed on your portion of Corp Net Income
Health Insurance	You must provide your own insurance	Your Corporation can pay your insurance, you receive it as a "taxable benefit."
Expenses	Schedule C	Corporation pays business expenses
Retirement Plan	401K, Solo 401K, Tradition IRA, SEP IRA, Defined Benefit Plan	401K, Solo 401K, Tradition IRA, SEP IRA, Defined Benefit Plan
Liability	Greater protection	Greater protection
Annual Meeting	N/A	Required, even if only 1 attendee

Drawbacks of 1099

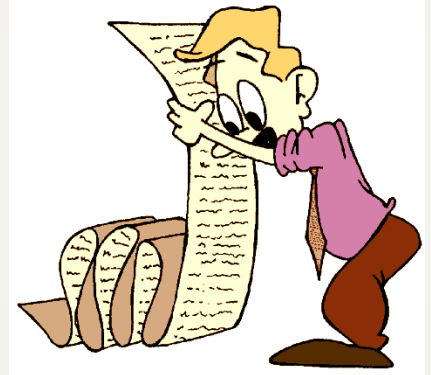
- Many staffing firms no longer allow this type of business model
 - Contractor versus Employee disputes
 - Legal and General Liability
 - Tax Penalties
- Business liability becomes personal liability
- You are subject to Schedule C, Self-Employment Tax on your 1040 tax return
 - Estimated tax payments (at higher tax rate)
 - Payroll tax (Medicare, Social Security)

Benefits of Incorporating

- Opens opportunities where 1099 is no longer accepted – “Corp to Corp”
- Greater liability protection
- Profits are taxed as ordinary income instead of the qualified dividends tax rate.
 - Lower tax rates (savings on payroll taxes, Corp vs Self Employment taxes)
- Greater options for Retirement Savings
- Distributions

Planning

- Create your business plan
- Include a checklist
- Consider calendar and timing
- Build your team
 - Assistants, Admin, Bookkeeper, CPA
- Yes, this is a “project plan”
- Consider “timing” of incorporating or converting
 - When and how to account for income and expenses



Business Name

- Using your name or some other name
 - Check availability with state and county
- Web site availability
- Contact options and email tied to Web site
- City and County business license
- Fictitious business name
 - County filing publishing requirements
- Other (check with state and county)

IRS Requirements

- EIN – Employer Identification Number
 - Go to www.irs.gov to apply
 - You receive form SS-4, the verification
- Form 2553 – Election For “S” Corp
- Make sure you receive the confirmation notice (scan and save as PDF)
- No Fees for IRS to file

Secretary of State Requirements

- Corporation application
 - Go to www.sos.ca.gov for forms, apply by paper
- Must file Articles of Incorporation and Bylaws with State (~\$100)
- File “Statement of Information” – Form SI-200
 - Must complete annually (~\$25 fee)
- You need the Corporation ID before doing anything else!

Legal Forms

- Articles of Incorporation
- Bylaws
- Stock Certificate and
- Corporate Notice of Transactions
- Corporate Minutes
- Other
 - Capitalization Policy (asset vs expense)
 - Employee handbook (ie expense reimbursement)
 - I-9 and W-4 (for employees)

Thomas Carlos Consulting Inc.

- I am a “Corporation of 1”
 - President
 - Secretary
 - Treasurer
 - Employee #1
- Insurance not required if Corp of 1
 - Workers Compensation
 - CA Disability Insurance

(Projects may require G&L, P&L insurance, it is good business practice to carry this)

Business As Usual

- Conduct business as usual
- Accounting
 - You need a “new” system of record
 - Accounting should not carry over from your 1099 records, create a new system
 - Invoice customers and receive cash
 - Pay bills
 - Paying yourself through payroll
- Prepping to pay Corp State and Personal tax

Taking Cash From Corporation

- Payroll
 - Hiring yourself (and other employees)
- Distributions
 - Taking cash funds that are not used for payroll, expenses, or other operating purposes.

Payroll - Paying Yourself

- As Corporate Officer, you must be on Payroll
 - Remember you are Employee #1
- Determine “reasonable compensation”
- Use payroll system (withholdings, deductions)
- Account for other benefits in your payroll
- Comply with IRS and EDD monthly and quarterly reporting and payment requirements
- I recommend QuickBooks Enhanced Payroll or online service

Distributions

- Are considered as a return on the investor's investment in the S corporation and not compensation for services rendered.
- Cash withdrawal amounts are based on the excess of cash that can be taken from the corporation without hindering ongoing operations.
- Shareholders are taxed on any profits distributed by the S-Corporation. Distributions can be used to pay those taxes.

Corporate Taxes

- Federal Corp Tax
 - No Fed Corporate Taxes, Tax is paid by the owners Your share of the “Net Income” flows to your personal form 1040 Fed and 540 State tax returns
- State of CA Corp Tax
 - \$800 minimum or 1.5% of net income.
 - Year 1 is 1.5% net income

Personal Taxes

- Federal Tax – Form 1040
- W-2 Wages (as Employee #1)
- Your portion of “Corporate Net Income”
 - You receive Form K-1 from Corporation
 - Schedule E2, Supplemental Income/Loss,
 - 1040, Line 17, S Corps
- No tax on ‘Distributions’, but you use those funds to pay the K-1
- Calculate and pay estimated taxes (on your personal return and submit if needed)

Your Accountant

- I recommend a “One-Stop Shop” approach
- Must be “CPA” who will do the following:
 - Accounting, Payroll, Review Process
 - Complete Corporate tax returns
- Must have other S-Corp clients
- Great to have QuickBooks expert
- Be local and offer remote support via internet
- Must be able to communicate and educate
 - You should learn how to speak “basic accounting”

References

- <http://www.dmlp.org/legal-guide/forming-corporation-california>
- <http://blog.upcounsel.com/guide-to-forming-california-s-corp/>
- <http://www.carotherscpa.com/business-strategies.php>
- <http://www.nolo.com/legal-encyclopedia/how-form-corporation-california.html>
- <http://www.ga-cpa.com/blog/considering-a-1099-opportunity-over-a-w-2>
- <http://www.jamesserra.com/archive/2011/09/consultants-1099-or-w-2/>
- <http://www.rothwell-international.com/comparison/>
- <http://www.bradbradley.com/#!llc-vs-s-corp/c1uac>
- <http://www.bizfilings.com/learn/llc-vs-s-corp.aspx>
- http://taxes.about.com/od/scorporations/qt/scorp_criteria.htm
- http://en.wikipedia.org/wiki/S_corporation
- http://taxes.about.com/od/scorporations/qt/scorp_payroll.htm
- <http://www.pappastax.com/s-corporation-wages-and-distributions-basic-tax-planning/>

References

- <https://ttlc.intuit.com/questions/4154372-how-often-do-i-have-to-pay-myself-in-any-scorp-does-the-salary-have-to-be-uniform-or-aligned-in-time-with-revenue-or-can-it-be-arbitrarily-timed-e-g-year-end>
- http://www.accupay.com/_paydays/2012/May/S%20Corp%20Pays%20Zero%20Salary%20to%20Owner_050312.pdf
- <https://www.nerdwallet.com/ask/question/establish-s-corp-business-pay-myself-salary-18992>
- <https://www.irs.gov/businesses/small-businesses-self-employed/s-corporation-compensation-and-medical-insurance-issues>
- <https://www.nolo.com/legal-encyclopedia/deducting-health-insurance-with-s-corporation.html>
- <https://evergreensmallbusiness.com/s-corporations-health-insurance-and-obamacare/>

Wrap Up and Questions



Thank you and Good Luck!

For an electronic copy of this presentation and the **S-Corp Business Checklist**, visit my web site, navigate to the “**Resources**” tab, to go to the bottom of that page.

Thomas Carlos Consulting Inc.
Roseville, CA
(916) 521-2520

www.carlosconsulting.com
Tom@CarlosConsulting.com