

THE TAX BENEFITS OF FORMING A PROFESSIONAL SERVICE CORPORATION IN CALIFORNIA

A professional corporation is an individual or group of individuals, all of whom are required by law to be licensed in their profession or to obtain other legal authorization, incorporated for the purpose of rendering the same professional service to the public.

Those individuals entitled to form professional corporations can receive numerous tax benefits over operating as a sole proprietorship or partnership while at the same time avoid filing a Schedule C (frequently and IRS audit Hog) with their own IRS form 1040. Expenses that most businesses incur or needlessly avoid because of cost can create huge benefits and tax deductions.

For example, with the skyrocketing cost of health care it becomes a necessity that individuals carry health insurance on themselves and their families. Sole proprietorships and partnerships are currently able to deduct only a portion of the health insurance costs from their taxes, which can be prohibitive to many or inhibit obtaining insurance coverage. A professional corporation, however, is able to fully deduct the cost of accident and health insurance plans for its employees and their families. This deduction could also extend to the cost of reimbursing employees for their uninsured medical expenses. Furthermore, a professional corporation may be able to deduct the cost of life and disability insurance.

In addition to the tax deductions for accident and health insurance that can be realized by forming a professional corporation, there are other tax benefits associated with forming a professional corporation. A professional corporation may deduct up to 80% of the dividends, which it receives from a domestic corporation that is subject to taxation. By contrast, a self-employed professional who owns dividend-producing stock must include the entire amount of dividends in their gross income. Furthermore, upon the sale of stock in a professional corporation, any gain realized would be taxed at a maximum rate of 28%, whereas a self-employed professional could be taxed at a rate as high as 39.6% on the sale of their interest in such a business.

The benefit of forming a professional corporation can be substantial, compared to the inexpensive cost of forming such an entity.

If you have any questions, please call a Spiegel & Utrera office listed below:

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