

# REDUCE YOUR CORPORATE TAXES!

## SUBCHAPTER S CORPORATIONS AVOID FEDERAL AND ILLINOIS CORPORATE INCOME TAX

In a Subchapter S Corporation, any taxable income will be allocated proportionately among the shareholders. A regular corporation would be subject to corporate tax rates ranging as high as 39%. Additionally, after tax corporate income, when distributed as income to shareholders, would be taxed a second time on the individual's personal income tax returns.

The double taxation of corporate earnings can be legally eliminated at the Federal level, and reduced at the State of Illinois level, with a Subchapter S Corporation.

Though a Subchapter S Corporation's income is taxed to the shareholders directly, the entity still retains all the important characteristics of regular corporate status. Thus, a Subchapter S Corporation retains corporate benefits such as limited liability, free transferability of interests, and continuity of life.

The following example shows how a Subchapter S Corporation can eliminate double taxation and lead to a tax savings:

Mary, sole shareholder of Fun Wear Clothing (a regular corporation) is in the 39.6% tax bracket.

Assume that Fun Wear Clothing has a taxable income of \$1 million for 1994 and wishes to distribute all of its earnings to Mary. Shown below, are the tax effects of regular corporate status versus a Subchapter S Corporation.

### REGULAR CORPORATE STATUS

Taxable Income	\$1,000,000
Less Corporate Tax	340,000
Distribution to Mary	660,000
Less Mary's Individual Income Tax	261,360
<b>Funds Available to Mary (after taxes)</b>	<b>\$398,640</b>

### SUBCHAPTER S CORPORATE STATUS

Taxable Income	\$1,000,000
Less Corporate Tax	0
Distribution to Mary	1,000,000
Less Mary's Individual Income Tax	396,000
<b>Funds Available to Mary (after taxes)</b>	<b>\$604,000</b>

Thus, if Fun Wear Clothing elects Subchapter S Corporation status, its sole shareholder will receive \$604,000 after all taxes are paid, instead of \$398,640 from a regular corporation, a net benefit of \$205,360!

### BONUS:

Even if your new corporation is not expected to make a profit immediately, it may also find it advantageous to be a Subchapter S Corporation. If losses occur, shareholders in most cases may reduce their individual income tax bills by deducting the allocated portion of corporate losses against other income.

## ILLINOIS BONUS:

Subchapter S Corporations are taxed at a lower corporate income tax rate, and thus pay a lower Illinois corporate income tax than regular Illinois corporations.

Spiegel & Utrera, P.A. is ready to form your Illinois Subchapter S Corporation today... over the telephone, call us now.

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for business legal services.

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