

The S-Corp Example



How can you save \$20K over the first two years of owning an LLC?

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Does the following characteristics describe you as a new business owner?

- 1 to 2 Owners
- Service Based: Performing a service for a local city or area
- Owners are the operators (The ones performing the service)
- Owners have some form of technical training or education in the service they perform
- Owners have a limited budget to launch the business and will usually start without debt

If so, you have come to the ebook that can seriously change your future.

Most small business owners that fit the description above do not know what we are about to tell you and as a result they usually end up with an unwanted tax bill in year one. This setback usually leads to business failure, or delays the success of the company beyond year one.

So what is an S-Corporation?

An S Corp is a tax status available to small businesses, which allows the owners to have access to their equity in the business without being taxed. Unlike a C Corp, distributions in an S Corp are tax free and doesn't require a 15% tax on the money that is withdrawn from the business.

Also an S-Corp allows the business owners to shield a significant portion of their earnings from the dreaded Self Employment tax. Earnings in a Partnership or Sole Proprietorship are subject to self employment tax, which is an additional 15.4% in taxes on top of their likely 18-20% federal income tax.

I'm sure by this point you're going "Okay, huh? I need to see an example..."

And we are glad you asked, cause we love to spread the wealth of knowledge here at Simple Start.

So how might these savings look on paper? Well let's go through an easy example below.

The S-Corp Example

S-Corp Example:

So in year one as a new small business you earn \$100K in net income. You didn't know you could save money by being an S-Corporation so you are taxed as a sole proprietor through a Schedule C on your Form 1040.

Tax Calculation on Net Earnings

Net Income = \$100K

Federal Income Tax: $\$100K \times 20\% = \$20K$

Self Employment Tax: $\$100K \times 15.4\% = \$15.4K$

Total Tax = \$35.4K

At this point, you were managing the expenses of the business and using the money you earned in year one to fund the business, but didn't put back money for taxes. Now you are facing the prospect of a \$35K tax bill, which for most people would be overwhelming and lead to more poor choices to try and mitigate that tax bill.

Now let's start over. Doesn't it feel good to know you can make the right choice before having to face an unexpected tax bill? We think so.

Same as before, you earn \$100K in net income during your first year. However this time you had Simple Start set you up correctly to prepare for your future as a brand new business by making the **S Corp Election**.

Tax Calculation on Net Earnings(As an S-Corp)

Net Income = \$100K

Federal Income Tax = $\$100K \times 20\% = \$20K$

Self Employment Tax = $\$30K \times 15.4\% = \$4.6K$

Total Tax = \$24.6K

So by making the S-Election you have just saved \$10K in taxes in the first year. Over the course of two years that will add up to \$20K! We don't know anyone who doesn't like saving \$10K in taxes a year. Just think about all the things you can do with \$10K; advertising, equipment needed to service more customers, two months of payroll to pay that staffer you need to process more orders. In today's economy \$10K can go towards many things that can give you the edge you need.

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The S Election comes with a few administrative requirements that you need to know:

1. You have to pay yourself a reasonable wage
2. A Wage Distribution requires additional forms that need to be filed both quarterly and annually (Many tax professionals can handle these filings at a low cost)
3. If you have more than one owner, distributions of earnings must be equal to their ownership and there can't be more than one class of stock
4. The LLC (as an S-Corp) will have to file its own tax return, which distributes the net income to you as an owner via a K-1 Statement, which you will report on your Form 1040.

You will likely need a CPA going forward once you start a business, and they will keep you on track with these filings. This will ultimately lead to you having more time to focus on the operations of the business while saving money.

Are you convinced yet of the potential benefits of an S-Corp Election? Thought so, so we're sure you're now saying "Great! what do I do next?"

The answer is simple, start your LLC with Simple Start Federal elections are included in all our packages and don't come at an extra charge like most LLC providers.

When you start your questionnaire with Simple Start, you will encounter a Federal Election question. **Simply select the "Election to be an S Corp" Option** and we will do the rest! It's that easy.

If you're ready, that means we are too, so join us in helping make your small business a vehicle for tax savings!

Please visit us on the web at www.simplestartllc.com! Our professionals can help you create an LLC that will service your needs, and lay the foundation you need to create a successful business. We have three packages that provide excellent value out there for the starting entrepreneur.

We want to thank you for reading this ebook! It is our hope that information provided will aid you in making the right steps toward your future as a business owner.

IMPORTANT DISCLAIMER: This is not meant to serve as tax advice in any way. We recommend that you reach out to your personal tax representative and verify the information that has been presented here before you take any actions. The example above is the results from what could happen based on the criteria presented in the example. The results may not be the same for you if things like net income, and effective tax rates are not achieved.