



HOJJATI CPA

A Dive into S-Corp Tax Strategies and Compliance

WHAT IS AN S-CORP?

S - Corp only exists for
taxation purposes

- S-Corp is not an actual legal entity, it is a taxable entity.
When you form a Corporation or LLC in your state, you inform the IRS by Filing form 2553 electing to be taxed as S-Corporation.
- S-Corp does not pay taxes at the corporate level. Instead profits are passed through to the owner (shareholder) in what are called dividends.
- Dividends are not subject to self-employment tax.



The background is a grayscale aerial photograph of a city with numerous skyscrapers. Overlaid on this is a graphic consisting of a solid green vertical bar on the left, a white square in the center, and a thick black L-shaped frame that encloses the white square and extends into the green bar.

S-CORP TAX STRATEGIES

EXPLAINED



STRATEGY 1

Buying Property

- Taxpayers can use their S-Corporation to report the entirety of their profits.
- By doing so, the business owner's profits are shielded from self employment tax.
- Ex) S-Corp Sam is qualified to buy a \$450K property based off \$100K of income. Sole Prop Sally is also qualified to buy a \$450K property based off \$100K of income. Both, S-Corp Sam and Sole Prop Sally will pay regular income taxes on the \$100K of income, however, Sole Prop Sally will pay an additional (approximate) \$15,000 in self-employment taxes while S-Corp Sam saves that \$15K towards down payment, closing costs and/or reserves.



STRATEGY 2

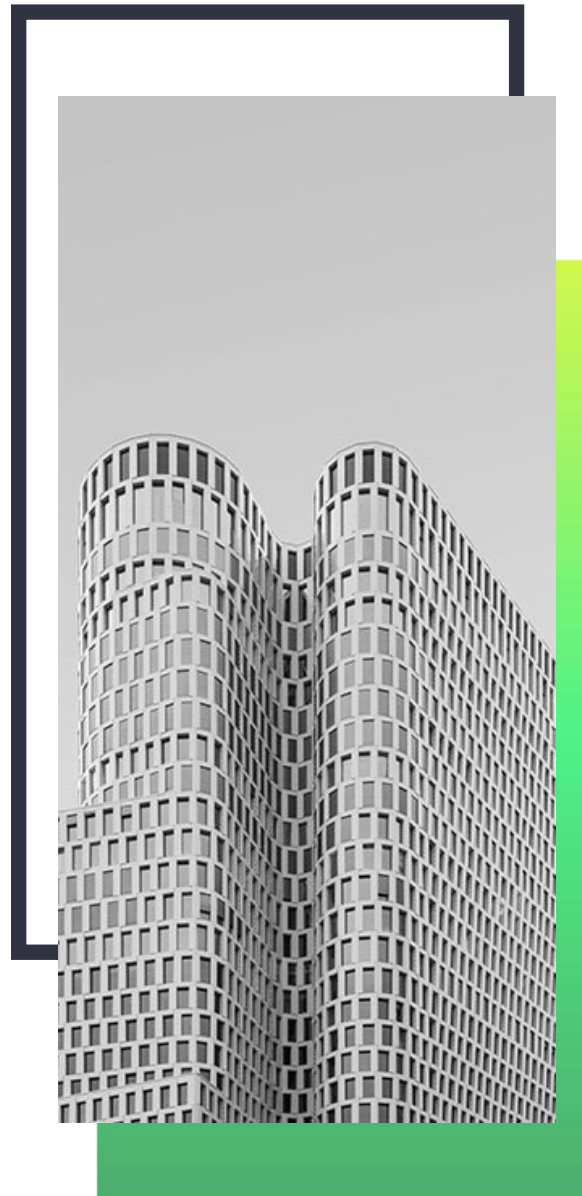
L i c e n s e d P r o f e s s i o n a l

- Licensed professionals in the state of CA cannot open an LLC and can only form a corporation (professional corporation). EX) Real estate agents, doctors, nurses, lawyers, accountants, etc.
- By default, professional corporations are taxed as a C-Corp.
- Ex) Doctor Charlie and Doctor Steve both open their medical practices at the same time. Charlie chooses to remain as a C-Corp, but Steve meets with his CPA and decides to elect to be taxed as an S-Corp. Both Charlie and Steve each bring in \$300,000 in profits after factoring in their salaries. Both, Charlie and Steve have been taking their profits and using the money to go on nice family vacations, buy some new toys, and pay off student loans.
- Little does Charlie know that the corporation is going to pay corporate taxes on \$300,000 of profits (approx. 30%). \$90,000 in corp taxes. Plus he's going to pay personal income taxes on the \$300K as dividends (approx 30%). That's another \$90,000 in personal income taxes. \$180,000 total in taxes.
- Meanwhile, Steve's S-Corp doesn't pay federal corporate taxes and instead recognizes the profits as dividends on his personal taxes (approx. 35%). \$105,000 in taxes.
- \$10K is a lot in taxes, but its better than \$180K in taxes.

WHY DON'T ALL BUSINESS OWNERS JUST FORM AN S-CORP?

There's a lot of compliance and admin costs behind the scenes

- Bookkeeping
- Payroll
- Filing corporate tax returns
- Annual city business license renewal (applies for sole prop too)
- Annual statement of information renewal (bi-annual if LLC).



At what number of profits does it make sense for business owners to switch from Sole Prop to S-Corp

- Ideally when business owners are making \$60,000 or more in profits consistently.
- At this profit amount the tax savings from minimizing self-employment tax outweigh the admin costs of operating an S-Corp.



S-CORP COMPLIANCE



S-Corp Client:

Tax and Accounting Checklist

Bookkeeping

- 1. Who manages your books? (A bookkeeper, yourself, etc.)?
- 2. What system do they use for bookkeeping (QuickBooks, spreadsheets, etc.)?
- 3. How frequent is your bookkeeping (monthly, quarterly, annually)?
- 4. Is your bookkeeping system linked with your invoicing system (for example: your use QuickBooks for invoicing and bookkeeping)?
- 5. Does your bookkeeping keep track of how much you pay your 1099-nec independent contractors?
- 6. Does your bookkeeping keep track of assets and depreciation?

Payroll-Owner Officer

- 1. Are you currently running payroll for yourself?
- 2. What is your gross annual salary (or monthly gross)?
- 3. How frequently do you pay yourself (monthly, semi-monthly, quarterly, once a year)?
- 4. Do you have a retirement plan? If so, is your retirement plan set up in conjunction with your payroll salary (for example: SEP IRA contribution limits are in alignment with annual salary)?
- 5. Do you have a supplemental insurance plan to cover yourself when you get hurt and unable to perform your duties?
- 6. Payments that you make to yourself that are not through payroll are called owners draws (or distributions). How frequent are your owners draws and how much are they?

S-CORP CLIENT:

Tax and Accounting Checklist

Payroll for Employees (or Contractors)

- 1. Do you have employees (paid through payroll) or contractors (paid by check, Zelle, cash, etc.)?
- 2. If employees via payroll, how frequently do you pay your employees (weekly, semi-monthly, etc.)?
- 3. If contractors how frequently do you pay you pay them (weekly, semi-monthly, per project, etc.)?
- 4. For independent contractors, have you collected all of their W9 information prior to paying them?
- 5. For independent contractors, how do you track how much you have paid them throughout the year?
- 6. Do you have worker's comp policy to cover your employees/contractors?
- 7. Do you have a benefits plan (health, retirement, etc.) for your employees?

Compliance

- 1. When is your statement of information, city business license, and tax return due dates?
- 2. Are you making quarterly estimated tax payments towards your federal and state projected tax liabilities?
- 3. Do you have the proper insurances for your business (liability, E&O, workers comp, etc)?
- 4. For employers, do you have the right employment practices (HR, hiring practices, disciplinary practices, proper meal and rest breaks, etc)?

Retail Business Only

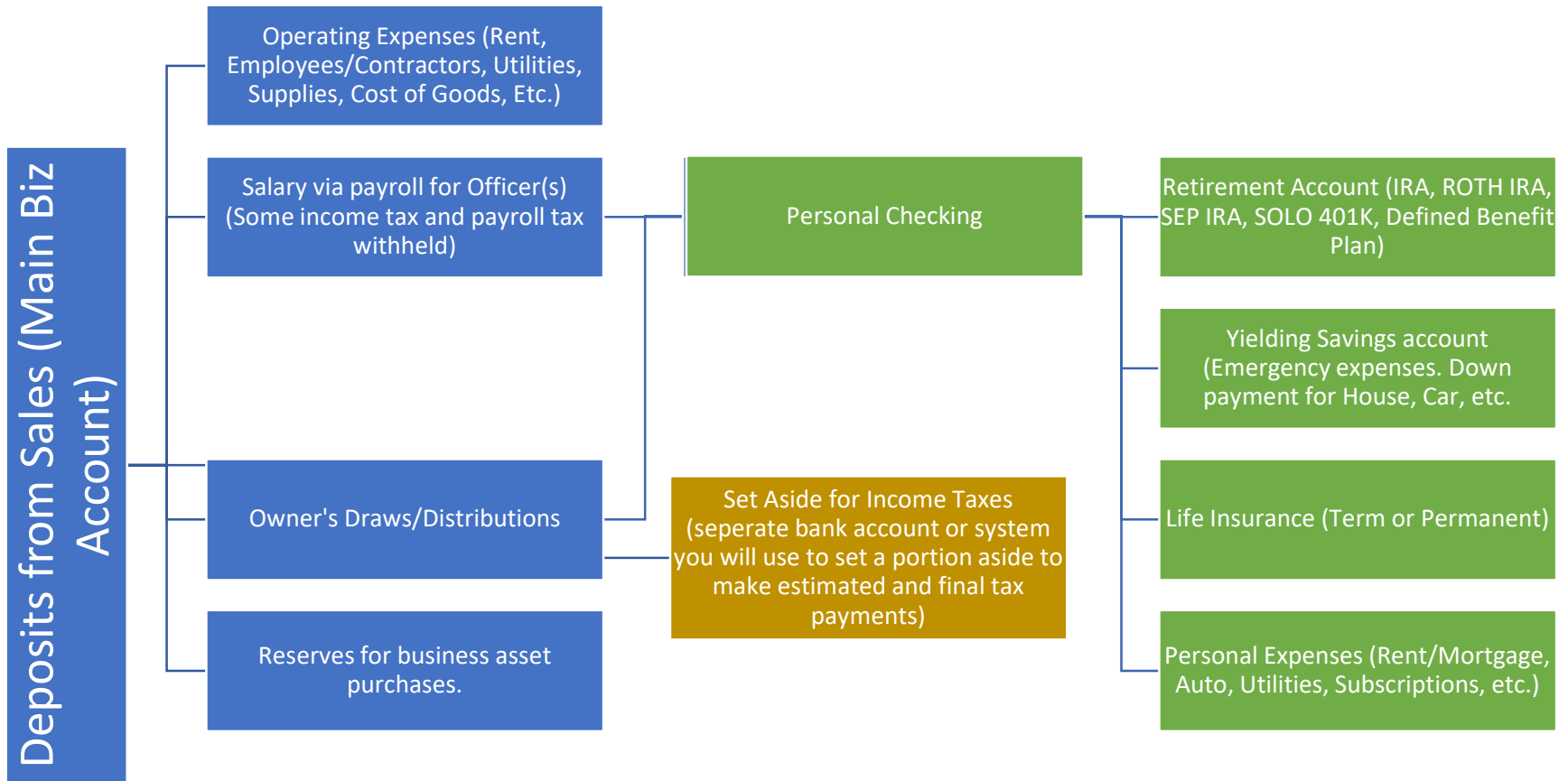
- 1. What point-of-sale system are you using?
- 2. Sales tax---Are you properly registered with the CDTFA (or your state's sales tax authority)?
- 3. Sales tax – How frequent do you file sales tax returns (quarterly, quarterly with monthly prepayments, or annually)?

S-CORP CLIENT:

Tax and Accounting Checklist

- 4.** Sales tax—How is your current system for tracking, collecting, filing, and paying your sales tax filing and payment obligations?
- 5.** Inventory—How do you track your inventory (through POS system, manual system, etc.)?

Implementation Cash Flow Chart For S-Corp Owner/Officer Business Owners





THANK YOU

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