

**No Ans**

- 1 **B** Corporation does not have limited life, like other entities
- 2 **C**
- 3 **B**
- 4 **A** An S corporation generally does not pay income tax (except in special situations).

5 **E**

Sue owns: --->	Sue Corp. 100%	BigSCorp 50%	Partnership. 50%	Income for Sue
Revenue	\$100,000	\$100,000	\$100,000	
Compensation to Sue	40,000	40,000		<b>\$80,000</b>
Other Expenses	10,000	30,000	30,000	
Net Income and taxable income	50,000			
Net Income and taxable income		30,000		<b>\$15,000</b>
Net Income and taxable income			70,000	<b>\$35,000</b>
Total dividends paid	7,000			<b>\$7,000</b>
Total dividends paid		\$4,000		
Total distribution to Partners			\$10,000	
<b>How much gross income is reported by Sue from these three entities?</b>				<b>\$137,000</b>

6 **B** Using a C corporation allows \$50,000 to be taxed at 15% corporate tax rate

7 **C**

Corporate taxable income		\$500,000
\$50,000	15%	\$7,500
\$25,000	25%	6,250
\$25,000	34%	8,500
\$235,000	39%	91,650
\$165,000	34%	56,100
		<b>\$170,000</b>
		34%
		<b>\$170,000</b>

8 **C**

Taxable Income	\$825,000
Tax Rate	35%
Income Tax	<b>\$288,750</b>

See text footnote on page 4-8.  
This is a personal service corporation.

9 **B**

Taxable Income	\$1,000,000
Tax Rate	34%
Income Tax	<b>\$340,000</b>

10 **C**

Corporate taxable income	\$50,000
\$50,000	15%
	\$7,500

11 **C**

Taxable Income	\$100,000
Tax Rate	35%
Income Tax	<b>\$35,000</b>

This is a personal service corporation

12 **B**

Taxable income before Dividend Received Deduction			\$70,000
Dividend Income		\$10,000	
Dividend Received deduction		70%	<b>(\$7,000)</b>
Taxable income			\$63,000
First layer of income	\$50,000	15%	\$7,500
Next layer of income	\$13,000	25%	\$3,250
<b>Corporate income after tax</b>			<b>10,750</b>

13 B A corporation reports the following for the year:

Sales	\$500,000
Cost of sales and normal operating expenses	(460,000)
Net income from operations (before tax)	40,000
Interest income on Apple Corporation bonds	10,000
Net income before tax	<b>\$50,000</b>
Taxable income	<b>\$50,000</b>

14 C A corporation reports the following for the year:

Sales	\$500,000
Cost of sales and normal operating expenses	(460,000)
Net income from operations (before tax)	40,000
Dividend income on Apple Corporation stock	10,000
Net income before tax	\$50,000
Dividend Income	\$10,000
Dividend Received deduction	70% <b>(\$7,000)</b>
Taxable income	<b>\$43,000</b>

15 A A corporation reports the following for the year:

Sales	\$500,000
Cost of sales and normal operating expenses	(460,000)
Net income from operations (before tax)	<b>40,000</b>
Interest income on municipal bonds	10,000
GAAP net income before tax	\$50,000
Taxable income	<b>\$40,000</b>

16 B Compute combined tax liability of corporation and individual

Corporate taxable income		\$100,000
\$50,000	15%	\$7,500
\$25,000	25%	6,250
\$25,000	34%	8,500
<b>Tax on the corporation</b>		<b>22,250</b>
<b>Corporate income after tax</b>		<b>77,750</b>

After-tax income distributed (above)	\$77,750
Tax rate on dividends	15%
<b>Tax on the individual</b>	<b>11,662.50</b>
<b>Total Tax (Individual and corporate)</b>	<b>\$33,912.50</b>

Salary	\$50,000
Tax Rate	7.65%
FICA Tax	<b>\$3,825</b>

18 A		Repair Corp.	Web-SCorp	Income for Jan
		100%	100%	
	Revenue	\$100,000	\$200,000	
	Compensation to Sue	(30,000)	(80,000)	110,000
	Rent Expenses	(20,000)	(90,000)	
	Other Expenses	(10,000)	(40,000)	
	Net Income and taxable income	40,000		0
	Net Income & taxable income (loss)		(10,000)	(10,000)
	Total dividends paid	5,000		5,000
	Total dividends paid		4,000	
	Total distribution to Partners			0
				\$105,000

19 C KAD reported taxable income (loss) before net operating loss deduction as follows:

	2012	2013	2014	2015	2016
	\$15,000	(\$20,000)	\$10,000	\$30,000	(\$75,000)
	(\$15,000)	\$15,000			
	0	(\$5,000)	(\$5,000)		
		\$0	\$5,000		
			(\$5,000)		5,000
			\$0		
				(30,000)	30,000
				0	
					(40,000) Remaining

20 B See Sarah - Tab 2

21 A See Sarah - Tab 2

22 D See Sarah - Tab 2

23 A Dividend from S corporation is generally tax-free (from previously taxed income)

24 B Compute Self-Employment Tax and AGI for Sarah Assuming LLC is used

Max. earnings for Social Security & Medicare Tax for 2016	\$118,500	
Net income from Self-Employment activities	200,000.00	
Fraction to compute self-employment income	92.35%	
Net Self-employment income - Total	184,700.00	
Net Self-Employment Income not above Soc. Sec. limit	118,500.00	
Rate for OASDI (6.2%) and Medicare Tax (1.45%) combined	15.30%	\$18,130.50
Net Self-Employment Income ABOVE Soc.Sec. limit	\$66,200	
Rate for Medicare Tax only	2.90%	1,919.80
Total Self-Employment tax		20,050.30
Deduction for AGI - 50%		10,025.15
AGI before SE Tax Deduction		200,000.00
		\$189,974.85

## C Corporation wholly owned by Sarah-2016

Part 1. Corporate Income Tax

<b>Corporate Revenue</b>					<b>\$1,000,000</b>
Expenses (except owner salary)					(800,000)
Net Income Before Salary to Owner					200,000
<b>Salary to only Stockholder (Sarah)</b>					<b>(80,000)</b>
<b>Corporate net income (also taxable income)</b>					<b>\$120,000</b>
<b>Federal Corporate Income Tax Rates</b>				<b>Income</b>	
<b>Layers taxed at various rates</b>			<b>Amount (layer)</b>	<b>Rate</b>	<b>Tax</b>
\$0	\$50,000	<b>\$50,000</b>	15%	<b>\$7,500</b>	
\$50,000	\$75,000	<b>\$25,000</b>	25%	<b>\$6,250</b>	
\$75,000	\$100,000	<b>\$25,000</b>	34%	<b>\$8,500</b>	
\$100,000	\$335,000	<b>\$20,000</b>	39%	<b>\$7,800</b>	
Corporate Taxable Income & Tax					<b>\$30,050</b>
Corporate Income After Tax					<b>\$89,950</b>

The state does not impose an individual or corporate income tax. Ignore payroll tax

Part 2. Sarah's Tax

<b>Tax Return of Shareholder - Sarah - Single, no dependent - 2016</b>		
Sarah's salary (from her corporation - above)		<b>\$80,000</b>
Sarah's share of C Corp. dividends or S corp. earnings		0.00
Sarah's adjusted Gross Income		<b>80,000</b>
Sarah's personal Deductions:		<b>Details</b>
Sarah's personal exemption		(4,050)
Sarah's Itemized Deductions (mortgage interest, etc)		(15,950)
Subtotal		(20,000)
<b>Sarah's Taxable Income (tax base)</b>		<b>60,000</b>
<b>Individual Tax Computation</b>		
(see tax rates at bottom of page)		
37,650	5,183.75	
22,350	25%	5,587.50
<b>Total Taxable Income and Tax</b>		<b>10,771.25</b>
<b>Sarah's Individual income Tax</b>		<b>10,771.25</b>
Tax Withholding (from her salary) and other tax credits		<b>12,000.00</b>
<b>Individual Income Tax Due or (Refund )</b>		<b>(1,228.75)</b>

Part 3.

<b>Total Tax</b>	Individual income tax - Above		<b>\$10,771.25</b>
	Corporate income tax - Above		<b>\$30,050.00</b>
	<b>Total individual and corporate income tax liability</b>		<b>\$40,821.25</b>
	Average tax rate on total income of:		<b>\$200,000</b> <b>20.41%</b>

Part 4. Individual

Individual taxable income is:		Individual Federal Income Tax - Single - 2016			
Over	But not over	Tax on all Previous Layers		Plus	of Taxable Income over:
\$0	\$9,275	0.00	+	10%	\$0
9,275	37,650	927.50	+	15%	\$9,275
37,650	91,150	5,183.75	+	25%	\$37,650
91,150	190,150	18,558.75	+	28%	\$91,150
190,150	413,350	46,278.75	+	33%	\$190,150
413,350	415,050	119,934.75	+	35%	\$413,350
\$415,050		120,529.75	+	39.6%	\$415,050

## C Corporation wholly owned by Sarah-2016

Part 1. Corporate Income Tax

<b>Corporate Revenue</b>					<b>\$1,000,000</b>
Expenses (except owner salary)					(800,000)
Net Income Before Salary to Owner					200,000
<b>Salary to only Stockholder (Sarah)</b>					<b>(80,000)</b>
<b>Corporate net income (also taxable income)</b>					<b>\$120,000</b>
<b>Federal Corporate Income Tax Rates</b>				<b>Income</b>	
<b>Layers taxed at various rates</b>		<b>Amount (layer)</b>	<b>Rate</b>	<b>Tax</b>	
\$0	\$50,000	<b>\$50,000</b>	15%	<b>\$7,500</b>	
\$50,000	\$75,000	<b>\$25,000</b>	25%	<b>\$6,250</b>	
\$75,000	\$100,000	<b>\$25,000</b>	34%	<b>\$8,500</b>	
\$100,000	\$335,000	<b>\$20,000</b>	39%	<b>\$7,800</b>	
Other rates - Omitted					
Corporate Taxable Income & Tax					<b>\$120,000</b>
					<b>\$30,050</b>
					<b>\$30,050</b>
Corporate Taxable Income & Tax					<b>\$89,950</b>

No. 21. Bonus

No. 22 Elect S

<b>\$1,000,000</b>	<b>\$1,000,000</b>
(800,000)	(800,000)
200,000	200,000
(90,000)	(80,000)
<b>\$110,000</b>	<b>\$120,000</b>
<b>\$26,150</b>	<b>\$0</b>
<b>\$83,850</b>	<b>\$120,000</b>

The state does not impose an individual or corporate income tax. Ignore payroll tax

Part 2. Sarah's Tax

<b>Tax Return of Shareholder - Sarah - Single, no dependent - 2016</b>				
Sarah's salary (from her corporation - above)				<b>\$80,000</b>
Sarah's share of C Corp. dividends or S corp. earnings				0.00
Sarah's adjusted Gross Income				<b>80,000</b>
Sarah's personal Deductions:			<b>Details</b>	
Sarah's personal exemption				(4,050)
Sarah's Itemized Deductions (mortgage interest, etc)				(15,950)
Subtotal				(20,000)
<b>Sarah's Taxable Income (tax base)</b>				<b>60,000</b>
<b>Individual Tax Computation</b>		37,650		5,183.75
(see tax rates at bottom of page)		22,350	25%	5,587.50
<b>Total Taxable Income and Tax</b>		<b>60,000</b>		<b>10,771.25</b>
<b>Sarah's Individual income Tax</b>				<b>10,771.25</b>
Tax Withholding (from her salary) and other tax credits				<b>12,000.00</b>
<b>Individual Income Tax Due or (Refund )</b>				<b>(1,228.75)</b>

No. 21. Bonus

No. 22 Elect S

<b>\$90,000</b>	<b>\$80,000</b>
0.00	120,000
<b>90,000</b>	<b>200,000</b>
(20,000)	(20,000)
<b>70,000</b>	<b>180,000</b>
<b>13,271.25</b>	<b>43,436.75</b>
<b>12,000.00</b>	<b>12,000.00</b>
<b>1,271.25</b>	<b>31,436.75</b>

Part 3.

Total Tax

<b>Individual income tax - Above</b>		<b>\$10,771.25</b>
<b>Corporate income tax - Above</b>		<b>\$30,050.00</b>
<b>Total individual and corporate income tax liability</b>		<b>\$40,821.25</b>
<b>Average tax rate on total income of:</b>		<b>\$200,000</b>
		<b>20.41%</b>

No. 21. Bonus

No. 22 Elect S

<b>\$13,271.25</b>	<b>\$43,436.75</b>
<b>\$26,150.00</b>	<b>\$0.00</b>
<b>\$39,421.25</b>	<b>\$43,436.75</b>
<b>19.71%</b>	<b>21.72%</b>

### No. 20 Analysis for C Corp. Dividend Alternative

Impact on corporation	\$0.00
Dividend income	\$10,000.00
Tax rate for dividend	15%
Additional individual tax	\$1,500.00
Total tax - basic case	\$40,821.25
Total tax considering dividend	\$42,321.25

### No. 21 Analysis for Bonus Alternative

Tax Burden - Basic Case	\$40,821.25
Tax Burden - with Bonus	\$39,421.25
Savings	\$1,400.00
Amount of bonus	\$10,000.00
Difference in tax rates	14%
Savings	\$1,400.00