**Basic facts last four questions on Final Exam.**

Sarah, who owns and operates a successful business, which is her only source of income. Sarah expects the corporation (in 2016) to have revenue of $1,000,000, expenses other than owner salary of $800,000. See spreadsheet containing Sarah’s tax computations.
Sarah will take a salary of $80,000, which is a reasonable amount of compensation.
**The corporation** will have taxable income of $120,000, an income tax liability
before credits of $30,050 and after-tax income of $89,950.

Assume the corporation is a C corporation, unless you are given other instructions.

**Sarah is single, age 40, with no dependent.** She has allowable itemized deductions (after all deduction limits) of $15,950. She claims one exemption of $4,050. Her personal income tax before credit for withholding is projected to be $10,771.25. The combined corporate and individual income tax burden is projected to be $40,821.25.

There is no state individual income tax, or state corporate income tax.

Sarah is considering taking a dividend of $20,000, in addition to her regular salary of $80,000. The dividend will be paid to her on December 31, 2016. She will not receive a bonus in 2016. What is the combined corporate and individual income tax burden if she does take a $20,000 dividend? (Ignore the impact of Social Security Taxes and Medicare Taxes.)

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| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| a. | $40,821.25 | b. | $44,843.75 | c. | $43,821.25 | d.  | $38,043.75 | e. | Other |  |

Sarah is considering taking a bonus of $20,000 in addition to her regular salary of $80,000. The bonus will be paid to her on December 31, 2016. Total compensation of $100,000 will be a reasonable amount for this individual. Sarah will not take a dividend.
What is the combined corporate and individual income tax burden if she does take a $20,000 bonus? (Ignore the impact of Social Security Taxes and Medicare Taxes.)

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| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| a. | $39,443.75 | b. | $40,843.75 | c. | $36,443.75 | d.  | $38,021.25 | e. | Other |  |

Sarah elected S status for the corporation for 2016?

She received her normal salary of $80,000 and no bonus or dividend.
How much federal income tax will be paid by the corporation for 2016?

|  |  |  |  |  |  |  |  |  |  |  |
| --- | --- | --- | --- | --- | --- | --- | --- | --- | --- | --- |
| a. | $$30,843.75 | b. | $40,843.75 | c. | $30,750.00 | d.  | $0 | e. | Other |  |

Assume that Sarah does elect S status for 2016, and she receives her normal salary of $80,000 and no bonus. Initially, she decided not to take a dividend this year.

What is the amount of the CHANGE in the combined corporate and individual income tax burden if she DECIDES to take a dividend of $20,000 from her S Corporation (and take her normal salary of $80,000)?
(In other words, what is the tax impact of taking a dividend from the corporation?)

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| a. | $0 | b. | $1,500 | c. | $2,000 | d.  | $2,500 | e. | Other |  |