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Page Title: C Corp, S Corp or Partnership: Which Business Structure Works Best for Your Business? | [INSERT RELATED SERVICE] | [INSERT FIRM NAME]

Meta Description: Wondering which business structure will work best for your business? If you're trying to figure out the differences among C corporations, S corporations and partnerships, [NAME OF FIRM] helps to clarify these differences so that you can make a smart choice when starting your business. Discover more about it here.

Headline: C Corp, S Corp or Partnership: Which Business Structure Works Best for Your Business?

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Among the most important choices you'll make when establishing your business is what type of entity to use for your company's structure. Generally selected from among C corporations, S corporations or partnerships, there are advantages and disadvantages in terms of tax and legal issues that will make one of these options the best choice for your company, both now and in the future. Given President Biden's proposal to increase both C corporation and individual income tax rates, converting your existing entity to a different structure may make sense, but only after careful consideration and analysis between immediate costs versus future tax benefits.

Deciding to change your business entity will have legal and tax consideration based on your particular situation, including your goals for your business and investment. With the proposed tax changes raising rates for corporations and high-income individuals, it's important to monitor these proposals and consider their possible effects when you're considering short- and long-term benefits of each entity option.

Choosing a Business Structure: Tax Considerations

Though we can provide you with a quick look at the tax considerations in choosing your business entity, it's a good idea to go over these options with your tax professional to ensure that you're not missing any possible issues. This can include whether you plan on reinvesting or distributing income, whether your business will have upfront losses, the projected return on investment, how long you'll keep it going before selling or closing down and the exit strategies you can use.

Effective Earnings Tax Rate

The rate at which businesses are taxed on their earnings can impact after-tax cash flow and return on investment, while distribution or reinvestment affects enterprise value. Let's look at each option:

- C corporations pay 21% corporate taxes, while earnings that are distributed are taxed again on the shareholder's taxes, creating an effective combined federal rate of about 40%. Earnings that are reinvested are only taxed once at the 21% rate. However, President Biden's proposal raises the corporate rate to 28% and the combined federal rate to 45% or higher.
- S corporations and partnerships generally don't pay entity-level taxes, rather taxed as earnings are passed through to the owners, regardless of whether those earnings are

reinvested or distributed. This creates a top tax rate of 37% on those earnings, or a lower 29.6% rate if a qualified business income deduction can be used. President Biden's plan increases the rate to 39.6%, while phasing out qualified business income deductions when income exceeds \$400,000.

If reinvesting earnings, C corporations may have greater after-tax cash flow compared to pass-through business entities but may pay more taxes when the investment is disposed of than pass-through owners. However, by using a viable tax planning strategy, C corporations may pay less taxes when exiting the business, though there may be accumulated earnings taxes and a personal holding company tax to pay. Now let's take a look at how exit strategies can impact your company's tax liability.

Making an Exit (Strategy)

Though annual taxes play a big part in the decision, consider taxes paid on exit as well. The ability to sell assets in a C corporation may be limited due to its double taxation. The sale of stock will generally be taxed at capital gain rates, while the sale of assets typically generates ordinary income. The tax on that disposition is based on your tax rates, ordinary income recapture and other issues that can come into play.

Setting up a solid exit strategy allows you to defer capital gains taxes from disposition of investments, including reinvesting your capital gains into qualified opportunity zones or funds and selling shares to an employee stock ownership plan. Look at transferring the investment into your estate, but be aware that President Biden's tax proposal will limit the property's tax basis step-up. If you've held qualified small business stock (QSBS) in your C corporation for at least five years and are a non-corporate shareholder, you might be able to exclude some or part of your gain from the sale, though it's limited to 10 times the disposed shares' aggregate adjusted basis or \$10 million, whichever is more. By comparison, S corporation shareholders have their own \$10 million QSBS disposition limitation.

Changing Your Business Structure

When changing among entity types, carefully consider, analyze and plan the process. The change may trigger tax consequences immediately, which you'll need to compare against possible future tax benefits. This includes taxable liquidations, liability gains exceeding the tax basis, built-in gains taxes, changes in your accounting method and deferred revenue recognition. Other potential issues can include international tax rules, upfront net operating loss deductions, self-employment taxes, state income tax, tax reporting requirements, inheritance tax and estate taxes.

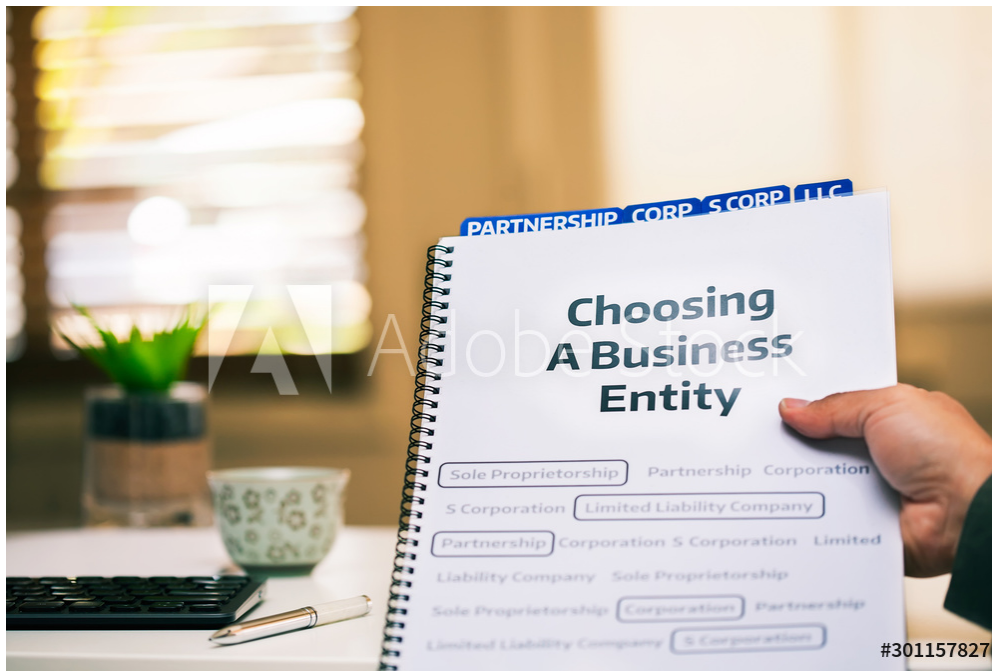
Other Factors

Though entity choice is typically tax-based, there are other issues to consider including liability protection, flexibility for daily management, capital access, ownership interest transference and succession planning. This makes the decision very complex.

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If you have any questions or need help finding the right entity option for your business, please contact [NAME] in our [DEPARTMENT] at [NUMBER/EMAIL].

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