

Chapter 1

Small Business Taxes 101

In This Chapter

- ▶ Appreciating the value of year-round tax planning
 - ▶ Noting the various taxes you and your business pay
-

Even though I write about personal finances, including tax issues, I don't particularly enjoy dealing with taxes. I would rather cut my lawn, take care of my neighbor's dog, or even visit my dentist. At least in all these cases, I know my time commitment is reasonably limited, and when I'm done, I'm satisfied that the job has been done well, and I can move on to something else.

Filling out state and federal tax forms is often complicated and confusing. Because I write about taxes, I feel that it's essential for me to complete my own forms and returns, which forces me to wallow in the details as much as possible so that I can more fully appreciate the challenges taxpayers face.

Though some of this book deals with the drudgery of completing required tax forms, much of it deals with the more interesting — and dare I say, fun — part of taxes, which is planning ahead so as to reduce and minimize your taxes. You see, if you simply view your role with taxes and your small business as jumping through the many hoops that federal, state, and local authorities require, you're missing out on something really big.

This chapter introduces the basics of small business taxes. Here, I discuss the value of tax planning all year long, and I define some important tax-related terms regarding the taxes you pay or may come across.

Valuing Year-Round Tax Planning

Taxes are a large, vital piece of your small-business and personal-financial puzzle. You're required by law to complete your tax forms each year and pay the taxes you owe. You do this because you have deadlines and don't want contact initiated by local or state authorities or the IRS, or worse, jail time!

Nothing really forces you to plan ahead regarding your tax situation and small business. That's why the vast majority of small business owners don't take steps year-round to plan and reduce their taxes, or, if they do think about doing so, they keep procrastinating. However, tax planning all year is valuable because it enables you to stay on top of your tax and business financial situation and minimize the taxes you legally owe. In this section, I explain typical ways in which taxes enter small business decisions and some common tax mistakes folks make in this realm.

Factoring taxes into small business decisions



Taxes infiltrate many areas of your small business and your personal finances. Some people make important financial decisions without considering taxes (and other important variables). Conversely, in an obsession to minimize or avoid taxes, other people make decisions that are counterproductive to achieving their long-term business and personal financial goals. Although taxes are an important component to factor into your major business and financial decisions, taxes shouldn't drive or dictate the decisions you make.

The following list shows some of the ways that tax issues are involved in making sound financial decisions throughout the year.

- ✓ **Type of business and benefits offered:** The type of business entity you select for your business — sole proprietorship, S corporation, limited liability company (LLC), and so on — can have significant tax and other consequences. The benefits you're able to utilize and offer to your employees, if you have them, also have tax ramifications (see Chapter 2).
- ✓ **Retirement accounts:** Taking advantage of retirement accounts can mean tens, perhaps even hundreds of thousands more dollars in your pocket come retirement time. Offering retirement account access to your employees can also be a valuable employee benefit for recruiting and retaining good employees if they understand what they have. Refer to Chapter 3 for more on retirement accounts.
- ✓ **Spending:** Throughout this book, I discuss myriad spending decisions you may face in your small business, such as buying equipment (Chapter 8), spending on employee benefits (Chapter 2), and so on. These decisions will often affect your taxes both now and in the future.
- ✓ **Protecting your assets:** Some of your insurance decisions also affect the taxes you pay. You'd think that after a lifetime of tax payments, your heirs would be left alone when you pass on to the great beyond — but that's wishful thinking. Estate planning can significantly reduce the taxes that are siphoned off from your estate. See Chapter 5 to find out more about estate planning.

- ✔ **Tracking your business financials:** Throughout the year, you should stay on top of your business's income and outflows so that you can see your business's financial health and record the numbers you need come tax time. Chapter 6 covers these important issues.

Checking out common tax mistakes

Even if some parts of the tax system are hopelessly and unreasonably complicated, there's no reason why you can't learn from the mistakes of others to save yourself some money, no matter the time of year. With this goal in mind, this section details common tax blunders that people make when it comes to managing their money.

Seeking advice after an important decision

Too many people seek out information and hire help *after* making a decision, even though seeking preventive help ahead of time generally is wiser and more financially beneficial.



Before making major small business and financial decisions, educate yourself. This book can help answer many of your questions. You may also want to do further research on your own (see Chapter 12) and/or hire a tax advisor (refer to Chapter 13) for some advice before making your decision(s).

Failing to withhold or submit enough taxes

If you're self-employed (or earn significant taxable income from investments outside retirement accounts), you need to make estimated quarterly tax payments. You also need to withhold taxes for your employees and send those taxes along to the appropriate tax agencies. Some small business owners don't have a human resources department to withhold taxes and dig themselves into a perpetual tax hole by failing to submit estimated quarterly tax payments.

To make quarterly tax payments, complete IRS Form 1040-ES, "Estimated Tax for Individuals." This form (discussed in Chapter 10) and its accompanying instructions (and payment coupons) explain how to calculate quarterly tax payments. For more information on the requirement for employee tax withholding, see Chapter 6.

Missing legal deductions

Some taxpayers miss out on legitimate tax write-offs because they just don't know about them. If you aren't going to take the time to discover the legal deductions that are available to you and that I discuss throughout this book, then you should pay for the cost of a competent tax advisor at least once.



Fearing an audit, some taxpayers (and even some tax preparers) avoid taking deductions that they have every right to take. Unless you have something to hide, such behavior is foolish and costly. Note that a certain number of returns are randomly audited every year, so even when you don't take every allowable deduction, you may nevertheless get audited! And, if you read Chapter 11, you can find out how to deal with an audit like a pro.

Forsaking retirement accounts

All the tax deductions and tax deferrals that come with accounts such as 401(k)s, Keogh plans, and individual retirement accounts (IRAs) were put in the tax code to encourage you to save for retirement. That's something that you as a small business owner should be doing for yourself as well as encouraging your employees to do.

Most excuses for missing out on these accounts just don't make good financial sense. Some folks underfund retirement accounts because they spend too much and because retirement seems so far away. Others mistakenly believe that retirement account money is totally inaccessible until they're old enough to qualify for senior discounts. (See Chapter 3 to find out all about your small business retirement account options.)

Not owning real estate

In the long run, owning a home should cost you less than renting. And because mortgage interest and property taxes are deductible, the government, in effect, subsidizes the cost of homeownership.

If you have a home office, you may be able to take additional expenses on your tax return. If you need a retail or commercial space for your small business, you should compare leasing to buying and be sure to factor in the tax benefits of owning. See Chapter 4 for more about real estate and taxes.

Neglecting the timing of events you can control



As a small business owner, you should pay attention to how your net income for the year is shaping up for the current year and how things are looking for next year. For example, if you're in the early stages of your business and you can see that you'll have more income next year, then it may be in your best interest tax-wise to delay paying some expenses from late in the current year into early next year.

Or suppose that you operate on a cash accounting basis and think that you'll be in a lower tax bracket next year. Perhaps business has slowed of late or you plan to take time off to be with a newborn or take an extended trip. You can send out some invoices later in the year so that your customers won't pay you until January, which falls in the next tax year.



Not using tax advisors effectively

If your financial situation is complicated, going it alone and relying only on the IRS booklets to figure your taxes usually is a mistake. Many people find the IRS instructions tedious and not geared toward highlighting opportunities for tax reductions. Instead, you can start by reading the relevant sections of this book. When you're overwhelmed by the complexity of particular small business and tax decisions, get advice from tax and financial advisors who sell their time and nothing else. (Chapter 13 has tips on hiring help.)

As a small business owner, ask yourself how much you're worth running your business versus how much you're worth as a bookkeeper. Then ask yourself which task you enjoy more and consider hiring a bookkeeper.

Note that using a tax advisor is most beneficial when you face new tax questions or problems. If your tax situation remains complicated or if you know that you'd do a worse job on your own, by all means keep using a tax preparer. If your situation is unchanging or isn't that complicated, consider hiring and paying someone to figure out your taxes one time. After that, go ahead and try completing your own tax returns.

Understanding the Different Types of Taxes You Pay and Your Tax Rates



Most small business owners pay income taxes at the personal income tax rates. That's because the vast majority of small businesses are run as sole proprietorships. And many of those that aren't, such as partnerships, LLCs, and S corporations, pass through their income in such a way that the income is generally taxed to its recipients as personal income. Some small business owners pay a corporate rate if their business is incorporated as a regular so-called *C corporation*. (The type of business entity you elect is discussed in Chapter 2.) See the later section "Corporate income tax rates" for more details.

When it comes to federal income taxes, many people remember only whether they received a refund or owed money. But you should care how much you pay in taxes and the total and marginal taxes that you pay so you can make decisions that lessen your tax load. Although some people feel happy when they get refunds, you shouldn't. A refund simply signifies that you overpaid your taxes during the previous year. When you file your income tax return, you settle up with tax authorities regarding the amount of taxes you paid during the past year versus the total tax that you're actually required to pay, based on your income and deductions.

In this section, I define important tax terms such as total taxes, taxable income, marginal tax rates, and corporate tax rates, and I also discuss the federal and state income tax systems.

Defining total taxes and taxable income

The only way to determine the total amount of income taxes you pay is to get out your federal and state tax returns. On each of those returns, about one-third of the way before the end, is a line that shows the total tax. Add the totals from your federal and state tax returns, and you probably have one very large expense!

Your taxable income is different from the total amount of money you earn during the tax year from employment and investments. *Taxable income* is defined as the amount of income on which you actually pay income taxes. You don't pay taxes on your total income for the following two reasons:

- ✔ **Not all income is taxable.** For example, you pay federal income tax on the interest that you earn on a bank savings account but not on the interest from *municipal bonds* (loans that you, as a bond buyer, make to state and local governments).
- ✔ **You get to subtract deductions from your income.** Some deductions are available just for being a living, breathing human being. For tax year 2013, single people receive an automatic \$6,100 standard deduction, heads of household qualify for \$8,950, and married couples filing jointly get \$12,200. (People older than 65 and those who are blind get slightly higher deductions.) Other expenses, such as mortgage interest and property taxes, are deductible to the extent that your total itemized deductions exceed the standard deductions.

Your marginal income tax rate for federal income taxes

Marginal is a word that people often use when they mean “small” or “barely acceptable.” But with taxes, marginal has a different meaning. The government charges you different income tax rates for different portions of your annual income. So your *marginal tax rate* is the rate that you pay on the so-called “last dollars” you earn. You generally pay less tax on your first, or lowest, dollars of earnings and more tax on your last, or highest, dollars of earnings. This system is known as a *graduated income tax*, a system that goes back hundreds of years to other countries.

The fact that not all income is treated equally under the current tax system isn't evident to most people. When you work for an employer and have a reasonably constant salary during the course of a year, a stable amount of federal and state taxes is deducted from each paycheck. Therefore, you may have the false impression that all your earned income is taxed equally.

Table 1-1 gives the 2013 federal income tax rates for singles and for married people filing jointly.

Table 1-1 2013 Federal Income Tax Brackets and Rates

<i>Singles Taxable Income</i>	<i>Married-Filing-Jointly Taxable Income</i>	<i>Federal Tax Rate (Bracket)</i>
Less than \$8,925	Less than \$17,850	10%
\$8,925 to \$36,250	\$17,850 to \$72,500	15%
\$36,250 to \$87,850	\$72,500 to \$146,400	25%
\$87,850 to \$183,250	\$146,400 to \$223,050	28%
\$183,250 to \$398,350	\$223,050 to \$398,350	33%
\$398,350 to \$400,000	\$398,350 to \$450,000	35%
More than \$400,000	More than \$450,000	39.6%



Your marginal tax rate is the rate of tax that you pay on your last, or so-called highest, dollars of taxable income. For example, according to Table 1-1, if you're single and your taxable income during 2013 totals \$50,000, you pay federal income tax at the rate of 10 percent on the first \$8,925 of taxable income. You then pay 15 percent on the amount from \$8,925 to \$36,250 and 25 percent on income from \$36,250 up to \$50,000. In other words, you effectively pay a marginal federal tax rate of 25 percent on your last dollars of income — those dollars in excess of \$36,250.

After you understand the powerful concept of marginal tax rates, you can see the value of the many financial strategies that affect the amount of taxes you pay. Because you pay taxes on your employment income and your investment earnings (other than retirement accounts), you need to make many of your personal financial decisions with your marginal tax rate in mind.

- ✓ For example, when you have the opportunity to earn some extra money, how much of that extra compensation you get to keep depends on your marginal tax rate. Your marginal income tax rate enables you to quickly calculate the additional taxes you'd pay on the additional income.
- ✓ Conversely, you quantify the amount of taxes that you save by reducing your taxable income, either by decreasing your income — for example, with pretax contributions to retirement accounts — or by increasing your deductions.

Actually, you can make even more of your marginal taxes. In the next section, I detail the painful realities of income taxes levied by most states that add to your federal income tax burden. If you're a middle-to-higher income earner, pay close attention to the sidebar later in this chapter where I discuss the alternative minimum tax.



Your federal income tax rates can effectively be higher than the amounts listed in Table 1-1 because some tax breaks are reduced when your income exceeds a particular level. For example:

- ✓ Itemized deductions, which are recorded on Schedule A, are reduced for tax year 2013 when your *adjusted gross income* (AGI — your total income before subtracting deductions) exceeds \$250,000 (\$300,000 for married persons filing separately).
- ✓ Personal exemptions are a freebie — they're a write-off of \$3,900 in tax year 2013 just because you're a living, breathing human being. However, personal exemptions are whittled away for single-income earners with AGIs of more than \$250,000, married people filing jointly with AGIs of more than \$300,000, and married persons filing separately with AGIs of more than \$150,000.
- ✓ If you own rental real estate, you may normally take up to a \$25,000 annual loss when your expenses exceed your rental income. Your ability to deduct this loss begins to be limited when your AGI exceeds \$100,000.
- ✓ Your eligibility to fully contribute to Roth Individual Retirement Accounts (see Chapter 3) depends on your AGI being less than or equal to \$112,000 if you're a single taxpayer or \$178,000 if you're married. Beyond these amounts, allowable contributions are phased out.

State income taxes

Your total marginal rate includes your federal *and* state income tax rates. As you may already be painfully aware, you don't pay only federal income taxes. You also get hit with state income taxes — that is, unless you live in Alaska, Florida, Nevada, South Dakota, Texas, Washington, or Wyoming. Those states have no state income taxes. As is true with federal income taxes, state income taxes have been around since the early 1900s.



You can look up your state tax rate by getting out your most recent year's state income tax preparation booklet. Alternatively, Figure 1-1 gives you an idea of your state tax rates; it reflects state individual income taxes. Some states impose other taxes — such as local, county, or city taxes; special taxes for nonresidents; or capital gains taxes — which aren't included in this table.

14-Mar-13

State Individual Income Taxes, 2013
(Tax rates for tax year 2013 – as of January 1, 2013)

State	Tax Rate Range (percent)		Number of Brackets	Income Brackets		Personal Exemptions			Federal Income Tax Deductible?
	Low	High		Lowest	Highest	Single	Married	Dependents	
Alabama	2.0	- 5.0	3	500 (b)	- 3,001 (b)	1,500	3,000	500 (e)	Yes
Alaska	No State Income Tax								
Arizona	2.59	- 4.54	5	10,000 (b)	- 150,001 (b)	2,100	4,200	2,300	
Arkansas (a)	1.0	- 7.0	6	4,899	- 34,000	23 (c)	46 (c)	23 (c)	
California (a)	1.0	- 12.3 (f)	9	7,455 (b)	- 500,000 (b)	104 (c)	208 (c)	321 (c)	
Colorado	4.63	-	1	---Flat rate---		3,900 (d)	7800 (d)	3900 (d)	
Connecticut	3.0	- 6.7	6	10,000 (b)	- 250,000 (b)	13,000 (g)	24,000 (g)	0	
Delaware	2.2	- 6.75	6	5,000	- 60,001	110 (c)	220 (c)	110 (c)	
District of Columbia	4.0	- 8.95	4	10,000	- 350,000	1,675	3,350	1,675	
Florida	No State Income Tax								
Georgia	1.0	- 6.0	6	750 (h)	- 7,001 (h)	2,700	5,400	3,000	
Hawaii	1.4	- 11.0	12	2,400 (b)	- 200,001 (b)	1,040	2,080	1,040	
Idaho (a)	1.6	- 7.4	7	1,380 (b)	- 10,350 (b)	3,900 (d)	7,800 (d)	3,900 (d)	
Illinois	5.0	-	1	---Flat rate---		2,000	4,000	2,000	
Indiana	3.4	-	1	---Flat rate---		1,000	2,000	2,500 (i)	
Iowa (a)	0.36	- 8.98	9	1,494	- 67,230	40 (c)	80 (c)	40 (c)	Yes
Kansas	3.0	- 4.90	2	15,000 (b)	-	2,250	4,500	2,250	
Kentucky	2.0	- 6.0	6	3,000	- 75,001	20 (c)	40 (c)	20 (c)	
Louisiana	2.0	- 6.0	3	12,500 (b)	- 150,001 (b)	4,500 (i)	9,000 (i)	1,000	Yes
Maine (a)	0.0	- 8.0	3	5,200 (b)	- 20,900 (b)	3,900	7,800	3,900	
Maryland	2.0	- 5.8	8	1,000 (k)	- 250,000 (k)	3,200	6,400	3,200	
Massachusetts (a)	5.3	-	1	---Flat rate---		4,400	8,800	1,000	
Michigan (a)	4.25	-	1	---Flat rate---		3,763	7,526	3,763 (m)	
Minnesota (a)	5.35	- 7.85	3	24,270 (l)	- 79,730 (l)	3,900 (d)	7,800 (d)	3,900 (d)	
Mississippi	3.0	- 5.0	3	5,000	- 10,001	6,000	12,000	1,500	
Missouri	1.5	- 6.0	10	1,000	- 9,001	2,100	4,200	1,200	Yes (m)
Montana (a)	1.0	- 6.9	7	2,700	- 16,400	2,240	4,480	2,240	Yes (m)
Nebraska (a)	2.46	- 6.84	4	2,400 (b)	- 27,001 (b)	126 (c)	252 (c)	126 (c)	
Nevada	No State Income Tax								
New Hampshire	State Income Tax of 5% on Dividends and Interest Income Only								
New Jersey	1.4	- 8.97	6	20,000 (n)	- 500,000 (n)	1,000	2,000	1,500	
New Mexico	1.7	- 4.9	4	5,500 (o)	- 16,001 (o)	3,900 (d)	7,800 (d)	3,900 (d)	
New York	4.0	- 8.82	8	8,200 (b)	- 1,029,250 (b)	0	0	1,000	
North Carolina	6.0	- 7.75	3	12,750 (p)	- 60,000 (p)	1,150	2,300	1,150	
North Dakota (a)	1.51	- 3.99	5	36,250 (q)	- 398,350 (q)	3,900 (d)	7,800 (d)	3,900 (d)	
Ohio (a)	0.587	- 5.925	9	5,200	- 208,500	1,650 (r)	3,300 (r)	1,650 (r)	
Oklahoma	0.5	- 5.25	7	1,000 (s)	- 8,701 (s)	1,600	2,000	1,000	
Oregon (a)	5.0	- 9.9	4	3,250 (b)	- 125,000 (b)	188	376 (c)	188 (c)	Yes (m)
Pennsylvania	3.07	-	1	---Flat rate---		None			
Rhode Island (a)	3.75	- 5.99	3	58,600	- 133,250	750	7,500	3,750	
South Carolina (a)	0.0	- 7.0	6	2,850	- 14,250	1,500 (d)	7,800 (d)	3,900 (d)	
South Dakota	No State Income Tax								
Tennessee	State Income Tax of 6% on Dividends and Interest Income Only					1,250	2,500	0	
Texas	No State Income Tax								
Utah	5.0	-	1	---Flat rate---		(t)	(t)	(t)	
Vermont (a)	3.55	- 8.95	5	35,350 (u)	- 388,350 (u)	3,900 (d)	7,800 (d)	3,900 (d)	
Virginia	2.0	- 5.75	4	3,000	- 17,001	930	1,860	930	
Washington	No State Income Tax								
West Virginia	3.0	- 6.5	5	10,000	- 60,000	2,000	4,000	2,000	
Wisconsin (a)	4.5	- 7.75	5	10,750 (v)	- 236,600 (v)	700	1,400	700	
Wyoming	No State Income Tax								

Footnotes:

- (a) Seventeen states have statutory provision for automatically adjusting to the rate of inflation the dollar values of the income tax brackets, standard deductions and/or personal exemptions. Massachusetts, Michigan, and Nebraska index the personal exemption only. Oregon does not index the income brackets for \$125,000 and over. Because the inflation adjustments for 2011 are not yet available in most cases, the table reports the 2010 amounts unless 2011 amounts are available.
- (b) For joint returns, taxes are twice the tax on all the couple's income.
- (c) The personal exemption takes the form of a tax credit instead of a deduction.
- (d) These states use the personal exemption amounts provided in the Federal Internal Revenue Code.
- (e) In Alabama, the dependent exemption is \$1,000 for taxpayers with state AGI of \$20,000 or less, \$500 with AGI from \$20,001 to \$100,000 and \$300 with AGI over \$100,000.
- (f) California imposes an additional 1% tax on taxable income over \$1 million, making the maximum tax rate 13.3% over 1 million.
- (g) Connecticut's personal exemption incorporates a standard deduction. An additional tax credit is allowed ranging from 75% to 0% based on state adjusted gross income. Exemption amounts are phased out for higher income taxpayers until they are eliminated for households earning over \$71,000.
- (h) The Georgia income brackets reported are for single individuals. For married couples filing jointly, the same tax rates apply to income brackets ranging from \$1,000 to \$10,000.
- (i) Indiana includes an additional exemption of \$1,500 for each dependent child.
- (j) The amounts reported for Louisiana are a combined personal exemption standard deduction.
- (k) The income brackets reported for Maryland are for single individuals. For married couples filing jointly, the same tax rates apply to income brackets ranging from \$1,000 to \$300,000.
- (l) The income brackets reported for Minnesota are for single individuals. For married couples filing jointly, the same tax rates apply to income brackets ranging from \$35,480 to \$140,961.
- (m) The deduction for federal income tax is limited to \$5,000 for individuals and \$10,000 for joint returns in Missouri and Montana and to \$6,100 for all filers in Oregon.
- (n) The New Jersey rates reported are for single individuals. For married couples filing jointly, the tax rates also range from 1.4% to 8.97% with 7 brackets and the same high and low income ranges.
- (o) The income brackets reported for New Mexico are for single individuals. For married couples filing jointly, the same tax rates apply to income brackets ranging from \$8,000 to \$24,000.
- (p) The income brackets reported for North Carolina are for single individuals. For married couples filing jointly, the same tax rates apply to income brackets ranging from \$21,250 to \$100,000.
- (q) The income brackets reported for North Dakota are for single individuals. For married couples filing jointly, the same tax rates apply to income brackets ranging from \$60,650 to \$388,350.
- (r) Ohio provides an additional tax credit of \$20 per exemption.
- (s) The income brackets reported for Oklahoma are for single persons. For married couples filing jointly, the same tax rates apply to income brackets ranging from \$2,000 to \$15,000.
- (t) Utah provides a tax credit equal to 6% of the federal personal exemption amounts (an applicable standard deduction).
- (u) Vermont's income brackets reported are for single individuals. For married couples filing jointly, the same tax rates apply to income brackets ranging from \$59,050 to \$388,350.
- (v) The Wisconsin income brackets reported are for single individuals. For married couples filing jointly, the same tax rates apply to income brackets ranging from \$14,330 to \$315,460.

Source: Federation of Tax Administrators, January 2013.
http://www.taxadmin.org/fta/rate/ind_inc.pdf

Source: Federation of Tax Administrators, January 2013. http://www.taxadmin.org/fta/rate/ind_inc.pdf

Figure 1-1:
State
marginal tax
rates.

The alternative minimum tax

In 1969, Congress created a second tax system called the *alternative minimum tax (AMT)* to ensure that higher-income earners with relatively high amounts of itemized deductions pay at least a minimum amount of taxes on their incomes. When it was added to the federal income tax code in 1969, the AMT affected a mere 155 high-income taxpayers; today, it hits more than 4 million taxpayers!

If you have a bunch of deductions from state income taxes, real estate taxes, certain types of mortgage interest, large miscellaneous itemized expenses, or passive investments (such as limited partnerships or rental real estate), you may fall prey to the AMT. The AMT is a classic case of the increasing complexity of the U.S. tax code. As incentives were placed in the tax code, people took advantage of them. Then the government said, "Whoa! We can't have people taking that many write-offs." Rather

than doing the sensible thing and limiting some of those deductions, Congress created the AMT instead.

The AMT restricts you from claiming certain deductions and requires you to increase your taxable income. So you must figure the tax you owe both under and out of the AMT system, and then pay whichever amount is higher. Unfortunately, the only way to know for certain whether you're ensnared by this second tax system is by completing — you guessed it — another tax form. Form 6251, "Alternative Minimum Tax — Individuals" is a bear of a form, so if you're confronting it for the first time, you may wish to enlist the support of a qualified tax advisor. Also, be aware that if you don't calculate the AMT on your return and you should have, the IRS will calculate the bill for the additional tax, interest, and possibly late payment penalties.

Corporate income tax rates

As I explain earlier in this chapter, the vast, vast majority of small business owners pay income taxes on their business earnings at the personal income tax rates. That's because most small businesses are organized as sole proprietorships, which have income taxed as personal income. Also, many other small businesses that are organized as partnerships, LLCs, and S corporations pass through their income to the business owners in such a way that it, too, is taxed as personal income.

Thus, only a small percentage of small business owners have their income taxed as regular, so-called C corporations. Corporate income tax rates (see Table 1-2) differ from personal income tax rates. Corporate income tax rates are generally lower for incomes up to \$75,000 and then are generally higher up to incomes of \$335,000. For incomes above \$335,000, corporate income tax rates are a bit lower again compared to personal federal income tax rates.

<i>Taxable Income</i>	<i>Tax Rate</i>
\$0 to \$50,000	15%
\$50,000 to \$75,000	25%
\$75,000 to \$100,000	34%
\$100,000 to \$335,000	39%
\$335,000 to \$10,000,000	34%
\$10,000,000 to \$15,000,000	35%
\$15,000,000 to \$18,333,333	38%
\$18,333,333 and up	35%

<http://www.pbookshop.com>

<http://www.pbookshop.com>