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ENTITY TAX COMPARISON CHART

(Business Advisory No. 23)

This Tax Advisory provides a comparison chart of the federal and California income taxes for various California entities. It may assist you in selecting the appropriate legal structure for your business (C Corporation, S Corporation or Limited Liability Company).

This Advisory is neither exhaustive nor tailored to your specific situation. You should discuss your personal situation with us or with your own attorney. Our representation is only undertaken through a written engagement letter and not by the mere distribution of this Advisory.

The following chart is based on the following assumptions and criteria:

- Only federal income tax and California state franchise taxes are considered.¹
- Current tax rates are used to calculate the federal taxes imposed on the C Corporation.
- To calculate the taxes imposed on the shareholder of a C Corporation, a dividend rate of 15% (federal) is applied, assuming all net profits (less applicable taxes at the C Corporation level) are distributed to the shareholder as dividends.
- To calculate the taxes imposed on the shareholder/member of an S Corporation/LLC (i.e., pass-through entities), individual tax rates of 28% (federal) and 9.3% (California) are applied.
- Any allowable waiver of California's minimum franchise taxes is not considered.
- Self-employment taxes are not considered. For example, an LLC Manager may be subject to such taxes on not only management fees but also his distributive share of the LLC's net income.

^{1/} Alternative minimum taxes are not taken into consideration.

Buynak, Fauver, Archbald & Spray, LLP

820 State Street, 4th Floor | Santa Barbara, California 93101 | (805) 966-7000 tel
433 Alisal Road, Suite C | Solvang, California 93464 | (805) 688-8090
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- Single member LLCs are not considered.
- Other factors may exist with regard to your particular facts and circumstances that are not considered in these calculations.

If Gross Income is	Profit Margin is...	C Corporation			S Corporation			Limited Liability Company		
		Federal ²	State ³	Total	Federal ⁴	State ⁵	Total	Federal ⁶	State	Total
\$50,000	5%	694	958	1652	700	958	1658	700	958 ⁷	1658
	10%	1388	1191	2579	1400	1191	2591	1400	1191	2591
	20%	2775	1732	4507	2800	1656	4456	2800	1656	4456
	30%	4163	2598	6761	4200	2121	6321	4200	2121	6321
\$250,000	5%	3469	2165	5634	3500	1888	5388	3500	2704 ⁸	6204
	10%	6938	4329	11267	7000	3051	10051	7000	3867	10867
	20%	13875	8659	22534	14000	5376	19376	14000	6192	20192
	30%	22938	12988	35926	21000	7995	28995	21000	8517	29517
\$500,000	5%	6938	4329	11267	7000	3051	10051	7000	5318 ⁹	12318
	10%	13875	8659	22534	14000	5376	19376	14000	7643	21643
	20%	33913	17318	51231	28000	10661	38661	28000	12293	40293
	30%	57988	25977	83965	42000	15991	57991	42000	16943	58943
\$1,000,000	5%	13875	8659	22534	14000	5376	19376	14000	10818 ¹⁰	24818
	10%	33913	17318	51231	28000	10661	38661	28000	15468	43468
	20%	76213	34636	110849	56000	21321	77321	56000	24768	80768
	30%	130213	51954	182167	84000	31982	115982	84000	34068	118068
\$5,000,000	5%	106138	43295	149433	70000	26651	96651	70000	34669 ¹¹	104669
	10%	219500	86589	306089	140000	53303	193303	140000	57919	197919
	20%	439000	173179	612179	280000	106605	386605	280000	104419	384419
	30%	658500	259768	918268	420000	159908	579908	420000	150919	570919

^{2/} For federal taxes, profit is taxed at appropriate federal corporate rates, with the “net” profit distributed to shareholders in the form of dividends which is taxed again at a flat rate of 15%.

^{3/} For California taxes, profit is taxed at a flat rate of 8.84% (with a minimum franchise tax of \$800), with the “net” profit distributed to shareholders in the form of dividends which is taxed again at a flat rate of 9.3%.

^{4/} For federal taxes, no tax imposed at the entity level as a S corporation is a “pass-through” entity. Rather, the tax is imposed at the shareholder’s level at a flat rate of 28%.

^{5/} For California taxes, S corporations are taxed on net income at a rate of 1.5% (with an \$800 minimum), plus additional taxes at the shareholder level at a rate of 9.3% (“pass-through” treatment).

^{6/} For federal taxes, an LLC is a “pass-through” entity, thus no tax imposed at the entity level. The tax is imposed at the member’s level at a flat rate of 28%.

^{7/} Taxes include \$800 annual minimum franchise tax, plus member-level taxes at 9.3%.

^{8/} Taxes include \$800 annual minimum franchise tax, plus \$900 annual LLC fee (based on LLC’s “total income”), plus member-level taxes at 9.3%.

^{9/} Taxes include \$800 annual minimum franchise tax, plus \$2,500 annual LLC Fee (based on LLC’s “total income”), plus member-level taxes at 9.3%.

^{10/} Taxes include \$800 annual minimum franchise tax, plus \$6,000 annual LLC Fee (based on LLC’s “total income”), plus member-level taxes at 9.3%.

^{11/} Taxes include \$800 annual minimum franchise tax, plus \$11,790 annual LLC Fee (based on LLC’s “total income”), plus member-level taxes at 9.3%.

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\$10,000,000	5%	219500	86589	306089	140000	53303	193303	140000	57919 ¹²	197919
	10%	439000	173179	612179	280000	106605	386605	280000	104419	384419
	20%	878000	346358	1224358	560000	213210	773210	560000	197419	757419
	30%	1317000	519536	1836536	840000	319815	1159815	840000	290419	1130419

As always, you should be sure that additional legislation has not been enacted or court decisions rendered, that would change the above advisements. This Advisory is neither exhaustive nor is it tailored to your specific situation. You should discuss your individual situation with us or your own attorney. We look forward to being of assistance to you.

S. Timothy Buynak
Business and Tax Attorney

This Advisory is one of a series of business and tax advisories prepared by the attorneys a Buynak, Fauver, Archbald & Spray, LLP. Should you have further questions regarding the information provided in this Advisory, please contact the author at the number listed above.

The Buynak, Fauver, Archbald & Spray, LLP provides business legal services to individuals, business entities and nonprofit organizations from entity formation and start-up, through day-to-day operations and exit strategies.

^{12/} Id.

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