New Law
Part 1

Other
Sec. 199A
Issues

Three STEPS (Non-SSBs)

1) Potential QBI Deduction: 20% x QBI

2) W2+UB Limit Phases-in based upon TI:
(% W-2 Wages + Unadjusted Basis)

3) TI-NCG Limit: Taxable income minus Net Capital Gain.

REITS and PTPs

"[C]ombined qualified business income amount" means, ...an amount equal to—

(A) the sum of the [QBI] deductions for each qualified trade or business carried..., plus

(B) 20 percent of the aggregate amount of the qualified REIT dividends and qualified publicly traded partnership income..."
(so the TI-NCG limit applies)

The TI-NCG limit applies, but because qualified REIT dividends, qualified publicly traded partnership income, and qualified cooperative dividends are not QBI, the W-2+UB limit does not apply

Qualified REIT dividend.

A dividend from a REIT that is:

- Not a capital gain dividend
- Not qualified dividend income.

Qualified Publicly Traded Partnership Income.

With respect to any qualified T or B, the sum of:

- Allocable share of income, gain, deduction and loss from a PTP that is not taxed as a corporation.
- Any gain upon disposition if ordinary income under sec. 751(a)

Qualified Cooperative Dividends (QCDs) (Sec. 199A(a)(2))

- QCD is defined in sec. 199A(e)(4).
- QCD's are not "qualified business income" (sec. 199A(c)(1)) so no W-2+UB limit.
- Potential deduction is 20% x QCD (sec. 199A(2)(A))
- The TI-NCG limit is really the TI-(NCG +QCD) limit and it applies to QCDs.

(4) Qualified cooperative dividend.

The term "qualified cooperative dividend" means any patronage dividend (as defined in **section 1388(a)**), any per-unit retain allocation (as defined in **section 1388(f)**), and any qualified written notice of allocation (as defined in **section 1388(c)**), or any similar amount received from an organization described in **subparagraph (B)(ii)** , which-

(A) is includible in gross income, and

(B) is received from-

(i) an organization or corporation described in **section 501(c)(12)** or **1381(a)** , or

(ii) an organization which is governed under this title by the rules applicable to cooperatives under this title before the enactment of subchapter T.

(a) In general.

In the case of a taxpayer other than a corporation, there shall be allowed as a deduction for any taxable year an amount equal to the sum of-

(1)

the lesser of-

(A) the combined qualified business income amount of the taxpayer, or

(B) an amount equal to 20 percent of the excess (if any) of-

(i) the taxable income of the taxpayer for the taxable year, over

(ii) the sum of any net capital gain (as defined in **section 1(h)**), plus the aggregate amount of the qualified cooperative dividends, of the taxpayer for the taxable year, plus

(2)

the lesser of-

(A) 20 percent of the aggregate amount of the qualified cooperative dividends of the taxpayer for the taxable year, or

(B) taxable income (reduced by the net capital gain (as so defined)) of the taxpayer for the taxable year.

The amount determined under the preceding sentence shall not exceed the taxable income (reduced by the net capital gain (as so defined)) of the taxpayer for the taxable year.

Sec. 199A Deduction for Specified Agricultural or Horticultural Cooperatives (SAHCs) (Sec. 199A(g))

- The sec. 199A deduction for SAHCs is 20% of the excess of gross income of the SAHC over "qualified cooperative dividends".

- Limits:
  1) a W2+U.B. limit (see sec. 199A(g)(1)) and
  2) A TI limit (see sec. 199A(g)(2)).

Qualified Equity Grants (Sec. 83(i))

- Applies to non-owner private company employees who receive stock per the exercise of stock options or RSUs.
- Can elect to defer income for up to five years beyond the date they would be taxable under the current rules.
- Elect by filing an “inclusion deferral election” no later than 30 days after the award is substantially vested or transferable, whichever is earlier.

- Not for owners (1% of stock), CFO or CEO or relatives of either.
- The company must have a written plan under which at least 80% of its U.S. employees are granted options or RSUs with the same rights and privileges.
- Numerous additional conditions.
- Effective Date: Options exercised or RSUs settled beginning in 2018.

NOLs

- The NOL deduction to is limited to 80 percent of taxable income (determined without regard to the deduction).
- Indefinite carryforward period.
- Effective for losses arising in tax years beginning after 2017.
  - o Clarification is needed for fiscal year taxpayers.

(e) EFFECTIVE DATE.—

(1) NET OPERATING LOSS LIMITATION.—The amendments made by subsections (a) and (d)(2) shall apply to losses arising in taxable years beginning after December 31, 2017.

(2) CARRYFORWARDS AND CARRYBACKS.—The amendments made by subsections (b), (c), and (d)(1) shall apply to net operating losses arising in taxable years ending after December 31, 2017.

Interest Expense Limit on all Entities and Individuals (Sec. 163(j))

Note:

New Net Bus. Interest: All taxpayers including C corps (PSP and S corp level).

New Excess Loss Limit: Apply to taxpayers other than C corps (partner/S shareholder level).

New QBI Deduction: All taxpayers except C corps (partner/S shareholder level.

Limit On Business Interest

(1) In general.

The amount allowed as a deduction under this chapter for any taxable year for business interest shall not exceed the sum of-

(A) the business interest income of such taxpayer for such taxable year,

(B) 30 percent of the adjusted taxable income of such taxpayer for such taxable year, plus

(C) the floor plan financing interest of such taxpayer for such taxable year.

The amount determined under **subparagraph (B)** shall not be less than zero.

(8) Adjusted taxable income.

For purposes of this subsection, the term "adjusted taxable income" means the taxable income of the taxpayer-

(A) computed without regard to-

(i) any item of income, gain, deduction, or loss which is not properly allocable to a trade or business,

(ii) any business interest or business interest income,

(iii) the amount of any net operating loss deduction under **section 172** ,

(iv) the amount of any deduction allowed under **section 199A** , and

(v) in the case of taxable years beginning before January 1, 2022, any deduction allowable for depreciation, amortization, or depletion, and

- Limit applies to interest on debt with related and unrelated lenders.
- Disallowed interest is carried forward indefinitely.

Business Interest Defined

"(5) BUSINESS INTEREST.—For purposes of this subsection, the term 'business interest' means any interest paid or accrued on indebtedness properly allocable to a trade or business. Such term shall not include investment interest (within the meaning of subsection (d)).

T or B does not include services performed as an employee

Exempts taxpayers (from paragraph (1) of sec. 163(j)) if average annual gross receipts of $25 million or less (per sec. 448(c)) for the three-tax-year period ending with the prior tax year.

Unless a tax shelter prohibited from using the cash method under sec. 448(c)(3).

Tax Shelter = Syndicate: "a partnership or any other entity [other than a C corporation] if more than 35 percent of the losses during any period are allocable to limited partners or limited entrepreneurs." (Sec. 1256(e)(3)(B)

- No losses, not a syndicate (PLR 8753032)

Not a limited partner or a limited entrepreneur if:

(i) is held by an individual who actively participates at all times during such period in the management of such entity,

(ii) is held by the spouse, children, grandchildren, and parents of an individual who actively participates at all times during such period in the management of such entity,

(iii) held by an individual who actively participated in the management of such entity for a period of not less than 5 years,

(iv) is held by the estate of an individual who actively participated in the management of such entity or is held by the estate of an individual if with respect to such individual such interest was at any time described in clause (ii) , or

(v) if the Secretary determines (by regulations or otherwise) that such interest should be treated as held by an individual who actively participates in the management of such entity, and that such entity and such interest are not used (or to be used) for tax-avoidance purposes. (Sec. 1256(e)(3)(C))

Example: Residential Rental Real Estate Purchased in 2015 $5.5 mil. cost allocated to Bldg.

Limited Partnership (40% Limited PTRs – Independent Investors) 2018 Income	
Gross Rent	1,200,000
Interest Expense	- 700,000
Prop. Taxes	- 100,000
Depreciation	- 200,000
Operating Exp.	- 300,000
Net Loss (Before)	=<100,000> (a "Tax Shelter")

Limited Partnership (40% Limited PTRs) 2018 Income	
Gross Rent	1,200,000
Interest Expense	- 700,000
Prop. Taxes	- 100,000
Depreciation	- 200,000
Operating Exp.	- 300,000
Net Loss (Before)	=<100,000> (a "Tax Shelter")
+ Adjustments	900,000 (Int. + Dep.)
ATI	=800,000
30% x 800,000	-240,000 (Allowed Int.)
Excess Bus. Int.	= 460,000 (Disallowed Int.)
Net Income (After)	= 360,000 (<100,000> + 460,000)

Partnerships

- Limit is applied at the partnership (PHP) level (carried over at PTR level).
  - Allowed interest expenses is a nonseparately state item.
  - Disallowed PHP interest expense is carried over at the PTR level as “excess business interest” and treated as business interest in the PTR’s succeeding tax year.
    - Note: only the disallowed interest is separately stated on the K-1.

- Partner's share of the partnership's "excess taxable income” in later years enables the PTR to deduct the carried over “excess business interest” (EBI).
  - PTR cannot use ATI from other sources to free-up EBI from a partnership.
- A partner’s share of disallowed interest reduces the PTRs basis in the partnership interest (O.B.).
  - But, upon disposition by the PTR, O.B. is adjusted upward for unused excess business interest.

Prior Example Continued to 2019

Limited Partnership (40% of PTRs are limited) 2019 Income	
Gross Rent	2,100,000
Interest Expense	- 500,000
Prop. Taxes	- 100,000
Depreciation	- 200,000
Operating Exp.	- 300,000
Net Income	= 1,000,000

Prior Example Continued to 2019

Limited Partnership (40% of PTRs are limited) 2019 Income	
Gross Rent	2,100,000
Interest Expense	- 500,000
Prop. Taxes	- 100,000
Depreciation	- 200,000
Operating Exp.	- 300,000
Net Income	= 1,000,000 (not a Tax Shelter*)
+ Adjustments	700,000 (Int. + Dep.)
ATI	= 1,700,000
30% x 1,700,000	= 510,000 (Sec. 163(j)(1)(B))

*Not a Tax Shelter, so no interest limit under sec. 163(j)(1) in 2019 even if interest expense exceeded $510,000.
But no change in excess interest carryover rule in (j)(2).

(C) Excess taxable income. The term "excess taxable income" means, with respect to any partnership, the amount which bears the same ratio to the partnership's adjusted taxable income as-

(i) the excess (if any) of-

(I) the amount determined for the partnership under **paragraph (1)(B)** , over

(II) the amount (if any) by which the business interest of the partnership, reduced by the floor plan financing interest, exceeds the business interest income of the partnership, bears to

(ii) the amount determined for the partnership under **paragraph (1)(B)** .

2019 Excess TI Frees-Up $33,333 of the $460,000 Carried Over Interest Expense from 2018.

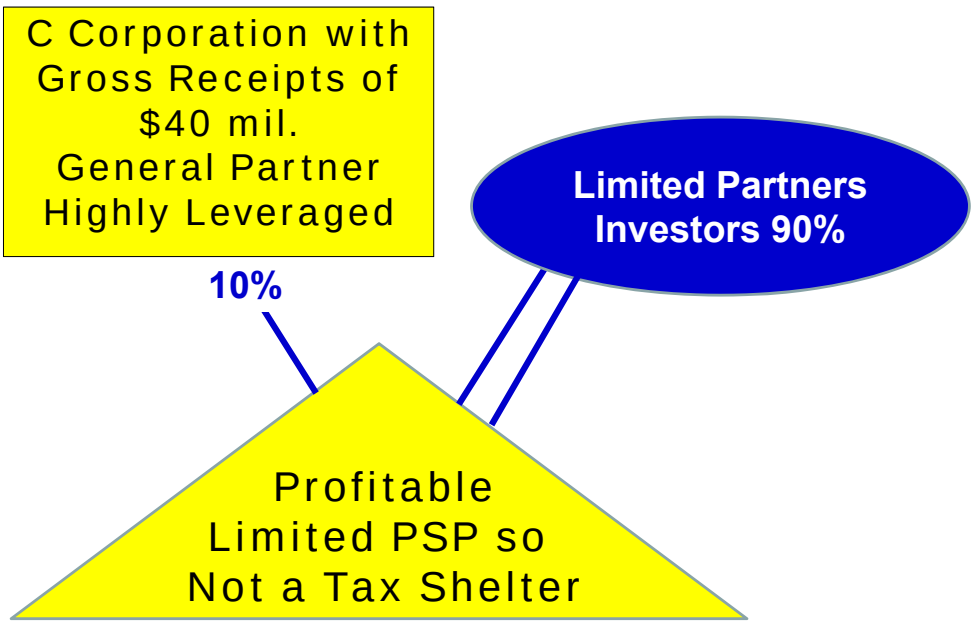
Limited Partnership (40% of PTRs are limited) 2019 Income	
Gross Rent	2,100,000
Interest Expense	- 500,000
Prop. Taxes	- 100,000
Depreciation	- 200,000
Operating Exp.	- 300,000
Net Income	= 1,000,000 (not a Tax Shelter)
+ Adjustments	700,000 (Int. + Dep.)
ATI	= 1,700,000
30% x 1,700,000	= 510,000 (Sec. 163(j)(1)(B))
	= 10,000 (510,000 – 500,000)
Excess T.I.	33,333 (10,000 ÷ 510,000) x 1.7 Mil.)

So the partnership would provide each partner with its share of the Excess T.I. and that allows the partner to deduct its excess business interest from this partnership.

Excess T.I. that is not used to free-up excess business interest from the PSP, can be used as ATI that helps the partner free-up its own interest expense.

Assume the partnership is profitable in 2018; what information is provided to the partners?

Focus on a C Corp. general partner that has gross receipts of $40 mil. so is subject to sec. 163(j)



Limited Partnership (90% of PTRs are limited) 2018 Income	
Gross Rent	2,100,000
Interest Expense	- 500,000
Prop. Taxes	- 100,000
Depreciation	- 200,000
Operating Exp.	- 300,000
Net Income	= 1,000,000 (not a Tax Shelter)

How much income from the PSP can the C corp. partner use to compute its Adjusted Taxable Income?

Partner Level ATI

So other than excess TI, the PTR is not allowed to consider any partnership items in determining the PTR's ATI.

"(ii) the adjusted taxable income of each partner of such partnership—

"(I) shall be determined without regard to such partner's distributive share of any items of income, gain, deduction, or loss of such partnership, and

"(II) shall be increased by such partner's distributive share of such partnership's excess taxable income.

C Corp. Partner's share of Excess T. I. is $3,333 (10% x $33,333)

Limited Partnership (90% of PTRs are limited) 2018 Income	
Gross Rent	2,100,000
Interest Expense	- 500,000
Prop. Taxes	- 100,000
Depreciation	- 200,000
Operating Exp.	- 300,000
Net Income	= 1,000,000 (not a Tax Shelter)
+ Adjustments	700,000 (Int. + Dep.)
ATI	= 1,700,000
30% x 1,700,000	= 510,000 (Sec. 163(j)(1)(B))
	= 10,000 (510,000 – 500,000)
Excess T.I.	33,333 (10,000 ÷ 510,000) x 1.7 Mil.)

- "Similar" rules for S corps, except for the partner level "special rules for carryforwards" in section 163(j)(4)(B) – so the limit is apparently all at the entity level for S corps. (Sec. 163(j)(4)(D))

- ATI of each S shareholder will include its share of excess T.I. from the S corp.

Election Out Of Sec. 163(j)

Election Out

The following businesses can elect out of Sec. 163(j),

- Any farming business
- A real property trade or business (Sec. 469(c)(7).

- The election out is broader than the exemption for taxpayers with gross receipts under 25 mil.
- An election out under (j)(7) causes the business to not be a T or B thus the interest apparently ceases to be T or B interest (no interest deduction limit whatsoever)

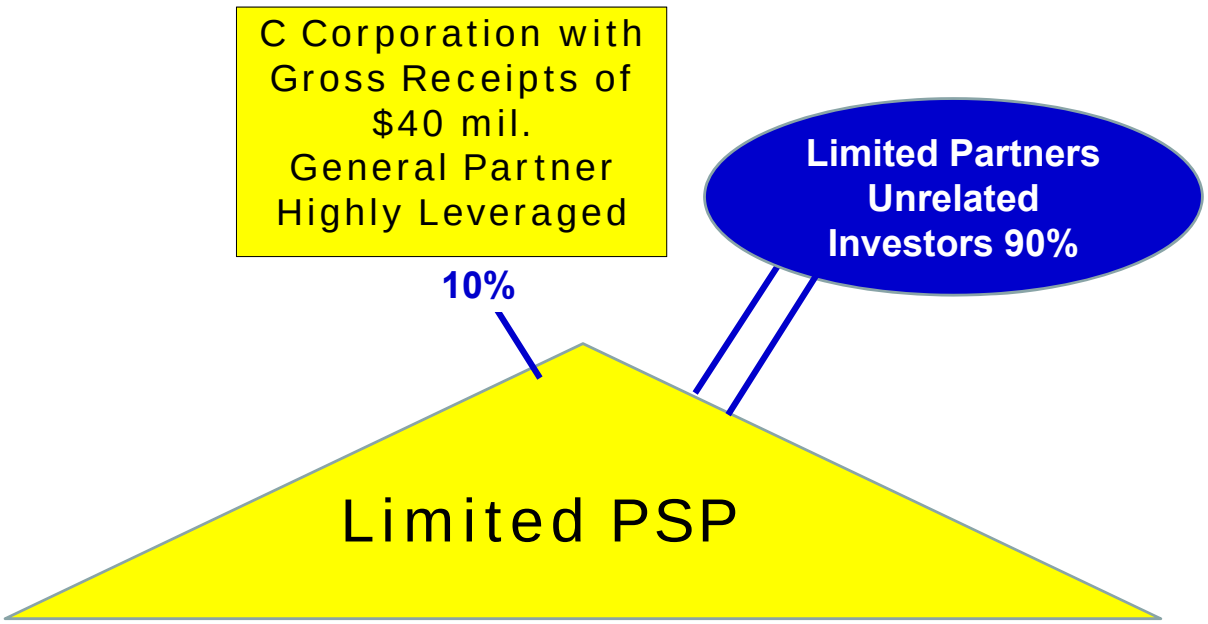
The term ‘real property trade or business means
any real property
development,
redevelopment,
construction,
reconstruction,
acquisition,
conversion,
rental,
operation,
management,
leasing, or
brokerage trade or business. (Sec. 469(c)(7)(C))

“[W]hether Mrs. Agarwal is characterized as a broker or a salesperson for State law purposes is irrelevant for Federal income tax purposes--the test is whether she was engaged in ‘brokerage’ within the meaning of section 469... Consistent with her real estate salesman's license and pursuant to her contract with the brokerage firm, Mrs. Agarwal was engaged in “brokerage”; i.e., she sold, exchanged, leased, or rented real property and solicited listings. Therefore, Mrs. Agarwal was engaged in a “brokerage” trade or business within the meaning of section 469(c)(7)(C).” Agarwal v. Comm’r, TC Summary Opinion 2009-29 (2009)

If farming T or B elects out of interest deduction limit, then must use ADS depreciation for farm property with a recovery period of 10 years or more (such as single purpose agricultural or horticultural structures, trees or vines bearing fruit or nuts, farm buildings, and certain land improvements.)

- A "real property trade or business" (defined by sec. 469(c)(7)(C) electing out of the interest expense limit must use ADS to depreciate any:
  - Nonresidential property
  - Residential rental property
  - QIP
- No bonus depreciation on ADS property (Sec. 168(k)(2)(D))

- Effective for tax years beginning after 2017.
  - 40 year ADS for residential rental property placed in service before 2018.
  - 30 year ADS for property place-in-service after 2017.



Year 1
(2018)

Without
Election Out

(focus on the C corp. partner)

Example: Residential Rental Real Estate Purchased in 2015 $5.5 mil. cost allocated to Bldg.

Limited Partnership (90% Limited PTRs – Independent Investors) 2018 Income	
Gross Rent	1,200,000
Interest Expense	- 700,000
Prop. Taxes	- 100,000
Depreciation	- 200,000
Operating Exp.	- 300,000
Net Loss (Before)	=<100,000> (a "Tax Shelter")

Limited Partnership (90% Limited PTRs) 2018 Income	
Gross Rent	1,200,000
Interest Expense	- 700,000
Prop. Taxes	- 100,000
Depreciation	- 200,000
Operating Exp.	- 300,000
Net Loss (Before)	=<100,000> (a "Tax Shelter")
+ Adjustments	900,000 (Int. + Dep.)
ATI	=800,000
30% x 800,000	-240,000 (Allowed Int.)
Excess Bus. Int.	= 460,000 (Disallowed Int.)
Net Income (After)	= 360,000 (<100,000> + 460,000)

C corp partners distributive share of PSP net income is $36,000 (10% x $360,000)

With Election Out

Limited Partnership (90% Limited PTRs) 2018 Income	
Gross Rent	1,200,000
Interest Expense	- 700,000
Prop. Taxes	- 100,000
Depreciation	- 132,432 (instead of $200,000)
Operating Exp.	- 300,000
Net Loss	= <32,432> (With election out)

C corp partners distributive share of PSP net loss is <3,243> (10% x <32,432>)

Observation:

By electing out of section 163(j), the individual limited partners do not get the section 199A deduction (no profit) and the loss share reduces the QBI deduction from other sources

Year 2 (2019)

Without Election Out

Limited Partnership (90% of PTRs are limited) 2019 Income	
Gross Rent	2,100,000
Interest Expense	- 500,000
Prop. Taxes	- 100,000
Depreciation	- 200,000
Operating Exp.	- 300,000
Net Income	= 1,000,000 (not a Tax Shelter)
+ Adjustments	700,000 (Int. + Dep.)
ATI	= 1,700,000
30% x 1,700,000	= 510,000 (Sec. 163(j)(1)(B))
	= 10,000 (510,000 – 500,000)
Excess T.I.	33,333 (10,000 ÷ 510,000) x 1.7 Mil.)

C Corp partner's share of excess T.I. is $3,333 so that amount of excess business interest of this PSP from Year 1 is allowed.

With Election Out

Continued to 2019

Limited Partnership (90% of PTRs are limited) 2019 Income	
Gross Rent	2,100,000
Interest Expense	- 500,000
Prop. Taxes	- 100,000
Depreciation	- 200,000
Operating Exp.	- 300,000
Net Income	= 1,000,000

Zero ATI from the PSP to any partner because PSP income is no longer T or B income for purposes of subsection (j)
(but no excess business interest from year 1)

Note: No need to elect out if your gross receipts are below $25 mil and the deal is not a Tax Shelter.

So it remains a big deal if the real estate T or B is a Tax Shelter.
Is the election out done annually?

No, “once made, [it] “shall be irrevocable” (Sec. 163(j)(7)(B))

Guaranteed Payments

Will guaranteed payments for capital generate generate business interest or investment interest (thus not subject to the sec. 163(j) limit)?

Preamble to 1411 Prop. Regs

The Treasury Department and the IRS believe that guaranteed payments for the use of capital share many of the characteristics of substitute interest, and therefore should be included as net investment income. This treatment is consistent with existing guidance under section 707(c) and other sections of the Code in which guaranteed payments for the use of capital are treated as interest. See, for example, §§1.263A-9(c)(2)(iii) and 1.469-2(e)(2)(ii).

Reg. 1.469-2(e)(2)(ii)

(ii) Section 707(c). Except as provided in paragraph (e)(2)(iii)(B) of this section [involving sec. 736 payments], any payment to a partner for services or the use of capital that is described in section 707(c), including any payment described in section 736(a)(2)..., is characterized as a payment for services or as the payment of interest, respectively, and not as a distributive share of partnership income.

Effective for tax years beginning after December 31, 2017.

- No grandfather rule for existing debt obligations.

Influence of QBI Deduction (Sec. 199A) on Choice of Entity

THREE STEPS

1) Potential QBI Deduction: 20% x QBI

2) W2+UB Limit Phases-in based upon TI:
(% W-2 Wages + Unadjusted Basis)

3) TI-NCG Limit: Taxable income minus Net Capital Gain.

"Treatment of reasonable compensation and guaranteed payments." (Sec 199A(c)(4)

"Qualified business income shall not include:

(A) reasonable compensation paid to the taxpayer by any qualified trade or business of the taxpayer for services rendered with respect to the trade or business,

(B) any guaranteed payment described in section 707(c) paid to a partner for services rendered with respect to the trade or business, and

(C) to the extent provided in regulations, any payment described in section 707(a) to a partner for services rendered with respect to the trade or business.

Example (1) Sole-Prop.

- $1,000,000 Sch. C. net income.
- W-2 wages of $400,000 were paid to employees.
- Assume the TI-NCG limit is not a problem.
- Assume not an SSB.
- QBI Ded. $200,000 (20% x 1,000,000)

Benefits of S corporations

- No SE tax on distributive share.
- Also, better than sole-prop. where a highly profitable business and the owner is not paying W-2 wages to third parties (perhaps an engineer or architect).
  - S corp can pay sufficient W-2 wages to qualify for QBI Deduction.
- S corps may be better than partnerships because PSP cannot pay W-2 wages to a Partner to qualify for QBI deduction.

Example (2) S Corp.

- Same as Example (1) but a 100% owned S corporation and recall that sufficient W-2 wages are paid to non-owner employees.
- W-2 wages paid to the owner (not QBI) reduce the owner's QBI.
- If the owner has enough income from other sources, don't pay anything from the corporation to the owner and thus risk recharacterization as W-2 wages.

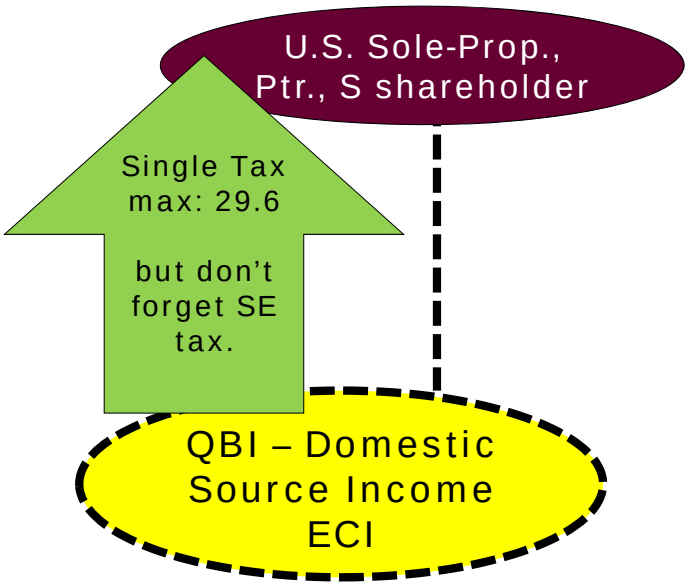
Ex. (3) S Corp.

- $1,000,000 net income before payment of $300,000 of W-2 wages to S Shareholder and no other W-2 wages paid.
- Assume S Shareholder T.I. is $700,000.
- The W2+UB Limit is overcome with the W-2 wages paid to the S Shareholder.
- QBI Ded. $140,000 (20% x 700,000)
- If an SSB, no QBI deduction (T.I. too high). Consider C corp.

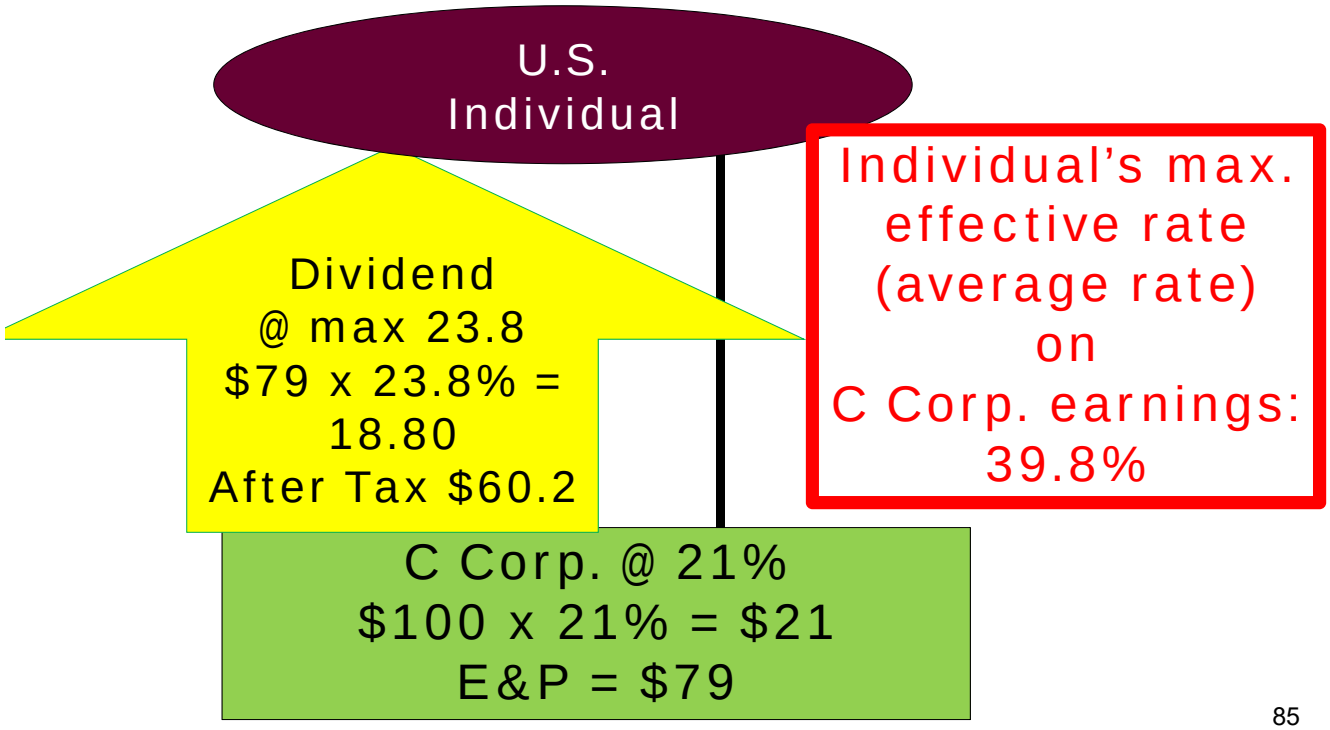
Ex. (4) PSP

- Two equal partners, A and B, but B gets a guaranteed payment of $300,000.
- $1,000,000 net income before payment of $300,000 guaranteed payment to partner A.
- Each partner's distributive share is $350,000.
- Partner B has GP of $300,000.
- The PSP needs to pay sufficient W-2 wages or have sufficient unadjusted basis.

Influence of Lower C Corp. Rate On Choice of Entity



Single	H of H	MFJ	Indiv. Bracket	Rate on QBI
<$9,525	<$13,600	<$19,050	10%	8%
<$38,700	<$51,800	<$77,400	12%	9.6%
<$82,500	<$82,500	<$165,000	22%	17.6%
<$157,500	<$157,500	<$315,000	24%	19.2%
<$200,000	<$200,000	<$400,000	32%	25.6%
<$500,000	<$500,000	<$600,000	35%	28%
>$500,000	>$500,000	>$600,000	37%	29.6%



When are C corporations Attractive?

- Highly profitable business where the earnings are plowed back into the business.
- Any SBB where the taxpayer's (or spouse's) other income drives the T.I. above $415K (MJF) or $207,500 (other).

Hazards of C corporations

- Double Tax (but second tax is deferred).
- Accumulated Earnings Penalty Tax.
- Personal Holding Company Tax.
- Law change increasing the C corp. rate.
- Sec. 269A (C and S).

Employee Incorporating To Get QBI Deduction (via S) or 21% rate (via C) ?

- See Sec. 269A "Personal service corporations formed or availed of to avoid or evade income tax."

Compare C corp. To Individual (MFJ)

Assume T.I. is all QBI and W-2+UB Limit does not apply (ignore state inc. tax)

C Corp.: $550,000 x 21% = $115,500 Tax

+ More Indiv. Tax when E&P is distributed

Indiv.: TI (w/o 199A) $550,000 from S Corp.

QBI Ded. -	110,000
TI	440,000 (35% Brack)
Indiv. Tax	105,379

(no SE Tax (an S corp.))

Pre-Tax Net Income of $599,000

- Indiv. Calif. State Inc. Tax is $50,895.
- Calif. State Corporate Inc. Tax (8.84%): $52,951 (deductible federally).

State and Fed. Tax Cost

C Corp.: $546,049 x 21% = $114,670 Fed. Tax
Calif. State Tax= $52,951
Total = 167,621
+ More Indiv. Tax when E&P is distributed

Indiv.: TI (w/o 199A)	$575,000* S Corp. share	
QBI Ded.	-	115,000
TI		460,000 (35% Brack)
Fed. Indiv. Tax		112,379
Calif. State Indiv. Tax		50,895
		163,274

*No state inc. tax deduction to individual taxpayer but with standard deduction (no SE tax).

Pre-Tax Net Income of $300,000

- Indiv. Calif. State Inc. Tax is $22,612.
- Calif. State Corporate Inc. Tax (8.84%): $26,520 (deductible federally).

State and Fed. Tax Cost

C Corp.: $273,480 x 21% = $57,430 Fed. Tax
Calif. State Tax= $26,520
Total = 83,950
More Indiv. Tax when E&P is distributed

Indiv.: TI (w/o 199A) $263,864* Sch. C (Std. Ded.)
QBI Ded. - 52,773
TI 211,094 (24% Brack)
Fed. Indiv. Tax 39,241
SE Tax 24,273 (1/2 = 12,136)
Calif. State Indiv. Tax 22,612
86,126

*No state inc. tax deduction to individual taxpayer but ½ SE Tax and standard ded.

Pre-Tax Net Income of 2,000,000 C v. S (MFJ)

- Indiv. Calif. State Inc. Tax is $227,550 (approximate) + 1.5% S Corp. Tax of $30,000 = $257,550
- Calif. State Corporate Inc. Tax (8.84%): $176,800 (deductible federally).

S Corp.	
Federal T.I.	$1,976,000 ($2 MIL. – $24k s.d.)
Fed. Tax	670,499
+ Calif. Tax	257,550
Total Tax	928,049

S Corp.	
Federal T.I.	$1,976,000 ($2 MIL. – $24k s.d.)
Fed. Tax	670,499
+ Calif. Tax	257,550
Total Tax	928,049
C Corporation	
Federal T.I.	$1,823,200 (2,000,000 – 176,800 CA Tax)
Fed. Tax	382,872
Calif. Tax	176,800
Total Entity Tax	559,672

S Corp.	
Federal T.I.	$1,976,000 ($2 MIL. – $24k s.d.)
Fed. Tax	670,499
+ Calif. Tax	257,550
Total Tax	928,049
C Corporation	
Federal T.I.	$1,823,200 (2,000,000 – 176,800 CA Tax)
Fed. Tax	382,872
Calif. Tax	176,800
Total Entity Tax	559,672
Fed. Tax on Div.	342,798 (e&p of 1,440,328)
CA Tax on Div.	191,563 (13.30%)
Grand Total Tax	$1,094,033

Deferred