

Advantages of Incorporating For Independent Contractors

W-2 Employee	LLC <small>*without S-Corp election</small>	S-Corp
Hourly rate: \$50	Hourly rate: \$54	Hourly rate: \$54
Annual: \$100K	Annual: \$108K	Annual: \$108K
Tax Deductible Business Expenses: None	Tax Deductible Business Expenses: \$4200 (please note these are examples only and may not apply to your situation) <ul style="list-style-type: none"> • Cell Phone (\$75/mo): \$900 • Mileage (5 mi/day at \$.56): \$700 • Office Supplies: \$200 • New Laptop/equipment: \$500 • Professional Org. Fee: \$200 • Books & Periodicals: \$150 • Education/Seminars/Cert.: \$200 • Bookkeeping: \$900 (\$75/mo) • Meals with clients/colleagues: \$200 • General Liability Insurance: \$250 	Tax Deductible Business Expenses: \$10,153.50 (please note these are examples only and may not apply to your situation) <ul style="list-style-type: none"> • Cell Phone (\$75/mo): \$900 • Mileage (5 mi/day at \$.56): \$700 • Office Supplies: \$200 • New Laptop/equipment: \$500 • Professional Org. Fee: \$200 • Books & Periodicals: \$150 • Education/Seminars/Cert.: \$200 • Bookkeeping: \$1,950 (\$150/mo + Annual Forms \$150) • 1120S Tax Prep \$200 • Meals with clients/colleagues: \$200 • General Liability Insurance: \$250 • Unemployment Insurance Tax: \$190 (range of \$175-\$200 based on tax rate) • Employers portion of FICA tax on salary (based on salary of \$59K): \$4513.50
	<small>*Additional possible business expenses not included in estimate, such as home office expenses, business travel, retirement contribution.</small>	<small>*Additional possible business expenses not included in estimate, such as home office expenses, business travel, retirement contribution.</small>

W-2 Employee	LLC <i>*without S-Corp election</i>	S-Corp
Salary subject to regular taxes: \$100,000	LLC owner's draw subject to regular taxes: \$103,800	Salary subject to regular taxes: \$59,000 Disbursement – no FICA tax: \$38,846.50
Employers portion of FICA tax paid by your employer	Employers portion of FICA tax paid by you. This is an additional 7.65% on top of regular taxes. You owe an additional \$7940.70 (7.65%) on top of your regular taxes.	Employers portion of FICA tax on salary paid by S-Corp and deductible as a business expense. The disbursed portion is not subject to either portion of FICA tax. Disbursement: \$38,846.50 Save 15.3% (7.65% x 2) on FICA tax = \$5943.51 tax savings
Taxes Owed to IRS: \$100,000 Salary x 28% Fed Tax= \$28K x 7.65% FICA = \$7650 Total Tax*: \$35,650	Taxes Owed to IRS: \$103,608 Draw x 28% Fed Tax = \$29,064 x 15.3% FICA = \$15,881.40 (employer + employee portion) Total Tax*: \$44,945.40	Taxes Owed to IRS: \$59,000 Salary x 28% Fed Tax = \$16,520 x 7.65% FICA = \$4,513.50 \$38,846.50 Disbursement x 28% Fed Tax = \$10,877.02 Total Tax*: \$31,910.52

*Tax rates based on 2013 Fed tax rates. Tax rate includes total income. Example does not include State taxes.

Entities

S-Corp

- Personal assets protected if company is sued
- Business expenses are tax deductible
- Flow through taxation – Business tax return required
- Self-employment tax savings
 - Disbursements are not subject to self-employment tax or FICA tax
 - save 15.30% of taxable income
 - Good rule of thumb is 60% salary, 40% disbursement
(Salary must be reasonable for current job market)

LLC

- Personal assets protected if company is sued
- Business expenses are tax deductible
- Flow through taxation – No Business tax return required
- No salary requirements for owner
- All profits can be disbursed but are subject to self-employment tax & FICA tax
- LLC rules are more flexible in how ownership is divided and profits are shared
- LLCs can elect to be treated as an S-Corp for tax purposes and take advantage of S-Corp disbursement tax savings