

Tax Savings of

Subchapter “S” Corp

vs.

Limited Liability Company LLC

The tax saving are not from income taxes. Federal and state income taxes are essentially the same for both S Corporations and LLCs.

The tax savings for a Subchapter S Corporation are from payroll taxes.

Why ?

All earnings (except rental income) from an LLC are subject to self-employment tax. Self-employment taxes are simply payroll taxes (social security & medicare) for the self-employed. Self-employment tax is currently 15.3%.

In contrast, only part of the earnings from a Subchapter S corporation are subject to payroll taxes.

The payroll tax savings increase until business profits reach approximately \$100,000. At that point the tax savings start to decrease until earning reach \$200,000 at which point the tax savings start to increase again but at a slower rate.

Examples (Based on 2008 payroll tax rates)

| <u>Earning from business</u> | <u>Total Payroll Taxes</u> | | <u>Sub S Savings</u> |
|----------------------------------|----------------------------|--------------|--------------------------|
| | <u>Sub S</u> | <u>L L C</u> | |
| \$ 20,000 | \$ 1,683 | \$ 3,060 | \$ 1,377 |
| \$ 50,000 | \$ 3,825 | \$ 7,650 | \$ 3,825 |
| \$ 100,000 | \$ 7,650 | \$ 15,300 | \$ 7,650 |
| \$ 150,000 | \$ 11,475 | \$ 16,750 | \$ 5,275 |
| \$ 200,000 | \$ 15,300 | \$ 18,200 | \$ 2,900 |
| \$ 300,000 | \$ 15,300 | \$ 21,100 | \$ 5,800 |

Note that self-employment taxes (and the benefits of a Subchapter S corporation) are significantly reduced if the owner of the LLC has another job where he/she is already earning over or close to the social security wage base which is currently about \$100,000.00.