

Tax Structure for Engineering Practice and Production Companies

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Objective

- Help you keep more of what you earn.
 - Therefore, tax not legal advice.

Assumptions

- Contract preference to be a *legal* entity rather than an individual
 - LLC, S corp, C corp
 - LLP, S corp, C corp

How will you make money?

- Consulting
- Products
- Both

Minimum Cost is \$800 annual fee to
CA + filing entity tax return

For each legal entity

Will you eventually sell practice?
Will you add operating partners?
Will you take investors?

Why S Corp?

- Gains and losses can directly pass through to individual tax return
- Part of S corp profits can be sheltered from employment taxes

Why C Corp?

- Required by investors

Solo

- LLC may choose to file sch. C with individual income tax return
- LLC may choose to file S corp + individual income tax return
- S corp must file S corp tax return + individual tax return
- C corp must file C corp tax return. If wages & dividends, then inputted to individual return

With Active Partners

- Multiple partners LLC or LLP files partnership return + individual income tax return
- S Corp files S Corp return + individual income tax return
- C corp must file C corp tax return. If wages & dividends, then inputted to individual return

Both Consulting & Products

Founders' LLC to own patents, then licensed to
C corp.

If there are challenges to patents, the LLC will
deal with the claim and the C corp will be free
to continue operating.

Check List for New Business

- Federal Employer Tax ID (EIN)
- State Employer Tax ID (SEIN)
- Fiscal year can be different from calendar year

Tax Savings Check List

<u>Deductions</u>	<u>Tips</u>
Vehicle Expense	Keep track of all local business travel. Use a calendar and map program to calculate mileage.
Contractors vs. employees	Contractors are exempt from payroll taxes
Hiring youths under age 21	Youths are exempt from payroll taxes
Section 179 expensing/depreciation	Current 2014 \$25,000 but Congress might reinstate \$500,000
Retirement account	
Defined contribution plan	Maximum of \$52,000 with an additional \$5,500 catch up
Defined benefit plan	Maximum of \$205,000
Fringe benefits	
Section 79 plan	\$50,000 per employee. Use whole life insurance to accumulate cash value
Insurance (no subsidized)	
Health Savings Account	Maximum \$3,300 for individuals, \$6,550 for family. \$1,000 catch up for account holder age 55 or older
Meals, travel & entertainment	
Office expense	
Use of home for office	Make certain that home office space is dedicated-no personal use.
Employment credits	R&D, enterprise zone credits

Questions or Comments

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