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

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

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