

Accountable Consulting LLC

S Corp Election Walkthrough

Hani Mahmoud, CPA

Owner of Accountable Consulting LLC

Address: 3440 Blue Springs Rd #503, Kennesaw, GA 30144

Office Line: 678-712-2112

Office Fax: 678-403-2556

Email: hani@accountableconsulting.org

Website: www.accountableconsulting.org

TYPE OF TAXES

- **Three Types of Taxes**
 - **Federal**
 - **Self Employment Tax**
 - **Social Security & Medicare**
 - **A.K.A FICA Taxes**
 - **State**




SELF EMPLOYMENT INCOME

- Net Self Employment Income
 - File a Sch C (Small Business Profit & Loss Return) on your 1040 (Personal tax return)
- Self Employment Tax
 - Social Security
 - 12.40% - Percentage could change next year
 - Maxed out at \$118,500 for 2017 but changes yearly
 - Medicare
 - 2.90% - Percentage could change
 - No max Currently ☹️ - Could change
 - Additional Medicare tax will be assessed if you make more than \$200k
- Example of Self Employment Tax
 - \$150,000 - Net Self Employment Income
 - Social Security
 - \$14,694 ($\$118,500 \text{ (Max Limit)} \times 12.4\%$)
 - Medicare
 - \$4,350 ($\$150,000 \times 2.9\%$)
- Credit on your 1040 for 50% of the total self employment tax
 - But it's a heavy hit



S CORP - BENEFITS

- Reduce your self employment tax liability drastically
 - Must pay yourself and the partners (if any) a reasonable salary
 - Social Security & Medicare Tax ONLY assessed on your SALARY!!!!!! Not the remaining profits of the company.
 - See example on next slide 
- Still will be an LLC legally
 - Will not have to keep up with minutes at board of directors meetings
- Treated as S Corp for tax purposes

Self Employment Income (Sch C) vs S Corp Example

- **Self Employment Income (Form Sch C)**


- \$150,000 - Net Income of Business
 - Social Security - On Net Income of Business
 - \$14,694 ($\$118,500$ (Max Limit) x 12.4%)
 - Medicare - On Net Income of Business
 - \$4,350 ($\$150,000$ x 2.9%)
- Total Self Employment Tax
 - **\$19,044**



- **S Corp (Form 1120S)**

- \$150,000 - Net Income of Business before salaries
- \$60,000 - Salary Paid to Officer
 - Social Security - On Net Income of Business
 - \$7,440 ($\$60,000$ x 12.4%)
 - Medicare - On Net Income of Business
 - \$1,740 ($\$150,000$ x 2.9%)
- Total Self Employment Tax
 - **\$9,180**
- 50% of the Social Security & Medicare taxes are eligible to be deducted on your 1120S
 - Additional Tax Saving
- Remaining \$90,000 in profits ($\$150,000$ net income before less $\$60,000$ salary) is free and clear of any self employment tax

Self Employment Income (Sch C) vs S Corp Example

- TOTAL SELF EMPLOYMENT TAX SAVINGS
- Self Employment Income (SCH C)
 - **\$19,044** – Total
- S Corp (1120S) 
 - **\$9,180** – Total
- **YOU JUST SAVED \$9,864.00 IN SELF EMPLOYMENT TAX!**
- **You owe me dinner!**

THINGS NEEDED TO SET UP S CORP

- LLC
 - Setting up an LLC does not save you money on taxes. They provide you with a corporate veil, to shield your personal assets against a lawsuit.
- EIN
 - Business Bank Account



COST OF MAINTAINING S CORP

- Payroll Cost
 - Since you have to draw a reasonable salary you are considered an employee of your LLC
 - You will be a W2, and receive pay checks
 - Employers pays half your FICA, and you pay the other half
 - FICA tax is a deduction on the employers side anyways, so it will help you out
 - \$75 to \$200/Monthly Payroll Cost (Estimate)
 - Paystubs to show proof of employment for financing purposes (housing, vehicle, apartment, etc)
 - Manual year end payroll
 - Set up various accounts
 - File all forms (940, 941's, W3, GA-7, GA DOL4, GA-1003)
- Higher Tax Return Fees
 - File a 1120S – Starting at \$500 depending on complexity
 - Due Date is 03/15 each year unless you file an extension

S CORP ELECTION DATE

- Needs to be made by March 15 for it to take place for that year
- Example – You make an S Corp election on 03/15 of 2017
 - The S Corp election will start 01/01/2017
- Example – You make an S Corp election on 08/15 of 2017
 - The S Corp election will start as of 01/01/2018
- Exceptions may apply if you can show hardship

THANK YOU FOR WATCHING!

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