

4 WAYS AN LLC IS TAXED – IN ORDER FROM WORST TO BEST ON TAXATION SIDE

<http://www.keytlaw.com/azllclaw/forming-llcs/llc-tax-methods/>

LLC-SOLE PROPRIETORSHIP – SCHEDULE C – LINE 12 OF 1040 - <https://www.youtube.com/watch?v=YbKMtLW0TEs>

If the LLC has only one member or only two members who are married and who own their interest in the LLC as community property, the LLC can be taxed as a sole proprietorship. This is the IRS' default method of income tax for a single member LLC. An LLC taxed as a sole proprietorship is treated by the IRS as if it does not exist. The IRS treats the LLC as a **disregarded entity**. The advantage of the sole proprietorship of federal income tax is that the LLC does not have to prepare and file a separate tax return. Everything goes on the member's IRS Form 1040, Schedule C.

Notes:

1. **Highest Audited**
2. Self-Employment of 15.3%
3. Least Loopholes
4. Example – Owner is Single - has Gross of \$500,000, less expenses of \$400,000 – Net Profit of \$100,000
 - a. Federal Tax due - ln 44 \$16,450
 - b. Self-Employment Tax ln 57 \$14,130
 - c. Arizona Tax \$3,091
 - d. **TOTAL TAXES WITH AN LLC \$33,671**

LLC-PARTNERSHIP – 1065 - <https://www.legalzoom.com/articles/the-problem-with-partnerships>

If the LLC has two or more members, it can be taxed as a partnership. This is the IRS default method of tax for every multi-member LLC. An LLC taxed as a partnership must prepare and file a partnership tax return. The LLC then issues each member a K-1 with the member's tax information. The members enter their K-1 information on their IRS Form 1040s.

1. Lesser Audits, yet - Members of a partnership have unlimited liability for debts and obligations that arise in the business. Can change % annually.
2. Self-Employment of 15.3%
3. A few more loopholes like UPE expenses & Guaranteed Payments for medical insurance
4. Example – Owner is Single - has Gross of \$500,000, less expenses of \$400,000 – Net Profit of \$100,000
 - a. Federal Tax due - ln 44 \$16,450
 - b. Self-Employment Tax ln 57 \$14,130
 - c. Arizona Tax \$3,091
 - d. **TOTAL TAXES WITH AN LLC \$33,671**

LLC-C CORPORATION – 1120 - <https://www.youtube.com/watch?v=eZHh2koXvzg>

Every LLC has the option to file an election with the IRS to be taxed under subchapter C of the Internal Revenue Code. This method of tax is commonly called being taxed as a "C corp" or "C corporation." An LLC that elects to be taxed as a C corporation must prepare and file an IRS Form 1120. Do not elect to cause your LLC to be taxed as a C corporation without first consulting with an experienced business tax lawyer or CPA because this method of taxes can result in two levels of federal income tax. A C corp is a taxing paying entity.

1. Many Benefits Yet Double Taxation
2. Example – Owner is Single - has Gross of \$500,000, less expenses of \$400,000 – Net Profit of \$100,000
 - a. Federal Corporation Tax on 1120C = \$22,653
 - b. Arizona Corporate Tax on AZ 120 = \$6,098
 - c. **TOTAL TAXES WITH AN LLC \$28,751**

LLC - S CORPORATION – 1120S - <https://www.youtube.com/watch?v=vZrEMISolec>

If the LLC is eligible, the members may file an election with the IRS and cause the LLC to be taxed under subchapter S of the Internal Revenue Code. The general rule is that all of the members of the LLC must be people who are U.S. citizens. The primary reasons LLCs elect to be taxed as an S corporation are: 1. To avoid the double tax applicable to an LLC taxed as a C corporation. 2. To reduce the amount of payroll taxes payable to the members (sometimes - whether this will apply to your LLC depends on the facts and circumstances of your LLC's situation year to year). An LLC taxed as an S corporation is not an entity that pays tax. The LLC does file a tax return on IRS Form 1120S, but it does not pay federal income tax. The LLC's profits and losses are passed through to the members pro rata based on the percentage ownership of each member.

1. **Least Audited entity as Congressman and Senators protect this entity as they have LLC-SCorps**
2. **NO Self-Employment of 15.3%**
3. **MOST Loopholes**
4. Example – Owner is Single - has Gross of \$500,000, less expenses of \$400,000 – Net Profit of \$100,000
 - a. Federal Tax due - ln 44 \$18,225
 - b. NO Self-Employment Tax ln 57 \$0.00
 - c. Arizona Tax \$3,400
 - d. **TOTAL TAXES WITH AN LLC \$21,625 – Savings over the LLC – Schedule c and LLC-Partnership = \$12,046**