

Federal Tax Brackets for Businesses In 2018

Federal Income Tax Brackets by Business Type		
Type	2017	2018
<p>C CORPORATION</p> <p><i>A C corporation is a popular structure for businesses that need a significant amount of immediate funding.</i></p> <p><i>This is usually initially formed if the business plans to conduct (i) a private offering of common stock or cryptocurrency tokens to investors that include corporations and LLCs, (ii) a Series A sale of preferred stock to venture capital firms, or (iii) a Regulation A+ or public offering of common stock to a large range of investors.</i></p>	<p>Corporate Income Tax 15% - \$0 to \$50,000 25% - \$50,000 to \$75,000 34% - \$75,000 to \$100,000 39% - \$100,000 to \$335,000 34% - \$335,000 to \$10,000,000 35% - \$10,000,000 to \$15,000,000 38% - \$15,000,000 to \$18,333,333 35% - \$18,333,333+</p> <p>Dividend Tax 0% - \$0 to \$37,950 15% - \$37,950 to \$418,400 20% - \$418,400+ <u>plus</u> 3.8% - \$200,000+ (medicare surtax on net investment income)</p> <p>Payroll Taxes on Salary</p>	<p>Corporate Income Tax 21% - 0+</p> <p>Alternative Minimum Tax on corporate income tax has been <u>repealed</u>.</p> <p>Dividend Tax 0% - \$0 to \$38,600 15% - \$38,600 to \$425,800 20% - \$425,800+ <u>plus</u> 3.8% - \$200,000+ (medicare surtax on net investment income)</p> <p>Payroll Taxes on Salary</p>
<p>LLC TAXED AS PARTNERSHIP</p> <p><i>A limited liability company that is taxed as a partnership is a popular structure for businesses that are receiving funding from investors that desire a direct pass-through of income and loss, without entity level taxation.</i></p>	<p>No Corporate Income Tax</p> <p>Income Tax (Single) 10% - \$0 to \$9,325 15% - \$9,325 to \$37,950 25% - \$37,950 to \$91,900 28% - \$91,900 to \$191,650 33% - \$191,650 to \$416,700 35% - \$416,700 to \$418,400 39.6% - \$418,400+</p> <p>Self-Employment Taxes Paid by the owner for all guaranteed payments and partnership distributions.</p>	<p>No Corporate Income Tax</p> <p>Income Tax (Single) 10% - \$0 to \$9,525 12% - \$9,525 to \$38,700 22% - \$38,700 to \$82,500 24% - \$82,500 to \$157,500 32% - \$157,500 to \$200,000 35% - \$200,000 to \$500,000 37% - \$500,000+</p> <p>Self-Employment Taxes Paid by the owner for all guaranteed payments and partnership distributions.</p>
<p>S CORPORATION</p> <p><i>An LLC or corporation that has elected to be taxed as an "S corporation" is a popular structure for businesses that have a steady income of at least \$50,000 a year and are owned by a small number of individual investors and <u>no</u> entity investors.</i></p> <p><i>Usually reduces the amount of social security and medicare taxes paid by owner-employees.</i></p>	<p>No Corporate Income Tax</p> <p>Income Tax (Single) 10% - \$0 to \$9,325 15% - \$9,325 to \$37,950 25% - \$37,950 to \$91,900 28% - \$91,900 to \$191,650 33% - \$191,650 to \$416,700 35% - \$416,700 to \$418,400 39.6% - \$418,400+</p> <p>Payroll Taxes on Salary Payroll taxes are paid on "reasonable salary" to employees. No self-employment taxes on distributions of income to owner-employees.</p>	<p>No Corporate Income Tax</p> <p>Income Tax (Single) 10% - \$0 to \$9,525 12% - \$9,525 to \$38,700 22% - \$38,700 to \$82,500 24% - \$82,500 to \$157,500 32% - \$157,500 to \$200,000 35% - \$200,000 to \$500,000 37% - \$500,000+</p> <p>Payroll Taxes on Salary Payroll taxes are paid on "reasonable salary" to employees. No self-employment taxes on distributions of income to owner-employees.</p>

This is a general summary of certain federal income tax brackets and deductions applicable to business owners in 2018. The new tax laws are complex and the IRS is expected to release further guidance on the regulations. Accordingly, this summary information is not intended as comprehensive legal or tax advice on any particular set of facts or circumstances, and should not be considered a substitute for legal advice on your specific tax issues and factual situation. For more specific information, please contact Susan Berson at sberson@banktaxlaw.com. © 2018 Berson Law Group LLP.

Federal Tax Brackets for Individuals In 2018

2018 Individual Tax Brackets		
Type	Ordinary Income Tax	Dividend and Long Term Capital Gain
Single <i>\$12,000 Standard Deduction, but no personal exemptions.</i>	10% - \$0 12% - \$9,525 22% - \$38,700 24% - \$82,500 32% - \$157,500 35% - \$200,000 37% - \$500,000+	0% - \$0 15% - \$38,600 20% - \$425,800+ 3.8% - \$200,000+ <i>(medicare surtax on net investment income)</i>
Married Filing Jointly <i>\$24,000 Standard Deduction, but no personal exemptions.</i>	10% - \$0 12% - \$19,050 22% - \$77,400 24% - \$165,000 32% - \$315,000 35% - \$400,000 37% - \$600,000+	0% - \$0 15% - \$77,200 20% - \$479,000+ 3.8% - \$250,000+ <i>(medicare surtax on net investment income)</i>
Head of Household <i>\$18,000 Standard Deduction, but no personal exemptions.</i>	10% - \$0 12% - \$13,600 22% - \$51,800 24% - \$82,500 32% - \$157,500 35% - \$200,000 37% - \$500,000+	0% - \$0 15% - \$51,700 20% - \$452,400+ 3.8% - \$200,000+ <i>(medicare surtax on net investment income)</i>

2018 Payroll, Self-Employment and Estate Tax Brackets	
Type	Tax Bracket
Payroll Tax	6.2% (Social Security) - \$0 to \$128,400 1.45% (Medicare) - \$0 to \$200,000 2.35% (Medicare) - \$200,000+ \$250,000+ (Married Filing Jointly) \$200,000 (Head of Household)
Self-Employment Tax	12.4% (Social Security) - \$0 to \$128,400 2.9% (Medicare) - \$0+3.8% (Medicare) - \$200,000+ (Single) \$250,000+ (Married Filing Jointly) \$200,000 (Head of Household)
Estate Taxes	Exemptions \$15,000 Annual Gift Tax Exclusion \$11,200,000 Individual Unified Estate and Gift Tax Exemption Estate Tax Brackets 0% - \$0 to \$11,200,000 40% - \$11,200,000+

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Individual Income Tax Deductions for 2018

The federal income tax deductions set forth below will be taken on the owner's Form 1040 individual income tax return.

Significant Deductions from Individual Income Taxes		
Type	2017	2018
Standard Deduction	\$6,350 (Individual) \$12,700 (Married Filing Jointly)	\$12,000 (Individual) \$24,000 (Married Filing Jointly)
Personal Exemption	\$4,000 per person, spouse and dependent.	None.
Child Tax Credit	\$1,000 per child (up to 16 years old)	\$2,000 per child (up to 16 years old)
Non-Child Dependent Credit	None.	\$500 per non-child dependent
Start-Up Expense Deduction (Section 195) <i>This includes investigation expenses for creation or acquisition of business. Also includes certain expenses incurred before business begins, such as travel, advertising, employee salaries, and consultant fees.</i>	Up to \$5,000. The remainder must be amortized over at least the next 180 months. If your startup costs are \$60,000 or more, all of it must be amortized over 180 months or more.	Up to \$5,000. The remainder must be amortized over at least the next 180 months. If your startup costs are \$60,000 or more, all of it must be amortized over 180 months or more.
Organizational Expense Deduction (Section 248) <i>Legal, accounting and government registration expenses to organize a corporation or LLC.</i>	Up to \$5,000. The remainder must be amortized over at least the next 180 months. If your startup costs are \$60,000 or more, all of it must be amortized over 180 months or more.	Up to \$5,000. The remainder must be amortized over at least the next 180 months. If your startup costs are \$60,000 or more, all of it must be amortized over 180 months or more.
Federal Deduction for State and Local Taxes <i>Income taxes and property taxes.</i>	If the taxpayer itemizes deductions, there are no quantitative limits for amount of deduction of state and local income and property taxes. If the taxpayer is subject to alternative minimum tax, then state and local tax deductions are disallowed.	If the taxpayer itemizes deductions, then up to a \$10,000 deduction is permitted. If the taxpayer is subject to alternative minimum tax, then state and local tax deductions are disallowed.

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Section 199A Pass-Through Business Deduction

Unless the IRS places additional regulatory restrictions on this deduction, the Section 199A deduction will likely result, for owners of most pass-through businesses, in individual federal income tax savings of between \$1,000 and \$5,000 for each \$100,000 of "qualified business income" earned. You must meet certain qualifications for eligibility to take advantage of the pass-through deduction, which includes scrutiny of income and type of profession or business. If you own a "specified service business," how much you earn determines whether you can take a full deduction, a partial deduction or no deduction.

2018 Qualified Business Income Deduction from Adjusted Gross Income for Income from LLC (Partnership) or S Corporation	
Business Income Type	Deduction
<p>If Business Income is:</p> <p><i>Less Than or Equal to \$157,500 Individual or \$315,000 Married Filing Jointly</i></p>	<p>The deduction is the <u>lesser of</u>:</p> <p>(a) 20% of "qualified business income" ("<u>QBI</u>"), <u>or</u></p> <p>(b) 20% of taxable income (minus net capital gain).</p>
<p>If Business Income is:</p> <p><i>Greater Than \$157,500 Individual or \$315,000 Married Filing Jointly</i></p>	<p>The deduction is the <u>lesser of</u>:</p> <p>(a) (i) 20% of QBI <u>or</u></p> <p>(ii) the greater of <u>either</u> (A) 50% of the W-2 wages paid by the qualified business to its employees <u>or</u> (B) the sum of 25% of the W-2 wages <u>plus</u> 2.5 percent of the unadjusted basis immediately after the acquisition of "qualified property" (i.e., certain real estate and equipment);</p> <p><u>or</u></p> <p>(b) 20% of taxable income (minus net capital gain).</p>
<p>If Business Income is from a Specified Service Business:</p> <p><i>Phase-Out of Deduction if Income is Greater Than \$157,500 Individual or \$315,000 Married Filing Jointly</i></p>	<p>Total phase-out of deduction occurs at \$207,500 income for individual or \$415,000 income for married filing jointly.</p> <p>"<u>Specified Service</u>" means any trade or business involving the performance of services in the fields of health, law, accounting, actuarial science, performing arts, consulting, athletics, financial services, brokerage services, investment management, trading or dealing in securities, or "any trade or business where the principal asset of such trade or business is the reputation or skill of 1 or more of its employees." Architects and engineers are specifically <u>exempted</u> from being deemed a specified service.</p>

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IRS Audits

An IRS audit can occur up to 20 months after the filing date of the tax return. The chart below summarizes the possible time periods for the IRS to make an assessment of additional taxes, interest and penalties. IRS collection efforts on owed taxes, interest and penalties can continue for 10 years, plus 30 days.

It is estimated that one-third of IRS inquiries originate from employee tax withholding issues. Sections 3102(a) and 3402(a) of the Internal Revenue Code require an employer to deduct and withhold income and social security taxes from the wages paid to employees. IRS Form 941 must be filed by employer, along with making the required "federal tax deposits." IRS Form W-2 is used to report the employee's wages. If the Form 941 does not match up with the information on Form W-2, expect a call from the IRS.

IRS Statute of Limitations for Tax Assessments	
Limitation Period	Description
Three Years	In most instances, the IRS assessment must be made within three years after filing of tax return.
Six Years	The IRS extends the three-year period of limitation to six years where the taxpayer "omits from gross income an amount properly includible therein which is in excess of 25 percent of the amount of gross income stated in the return."
Unlimited	In the event of tax fraud, there is no statute of limitations.

Any Questions? Give Us A Call or Send Us an Email



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