

# Tax Savings of Subchapter “S” Corp vs Limited Liability Company LLC

The tax saving are not from income taxes. Federal and state income taxes are essentially the same for both S Corporations and LLCs.

The tax savings for a Subchapter S Corporation are from payroll taxes.

## Why ?

All earnings (except rental income from real estate) from an LLC are subject to self-employment tax. Self-employment taxes are simply payroll taxes (social security & medicare) for the self-employed. Self-employment tax for 2015 is 15.3% of net income up to \$119,100 and 2.9% on net income in excess of \$119,100..

In contrast, only part of the earnings from a Subchapter S Corporation are subject to payroll taxes. In this example we assume that 50% of your net income is treated as wages up to a maximum of \$119,100 and the remaining portion is treated as a Subchapter S profit distribution.

The payroll tax savings increase until business profits reach approximately \$119,100. At that point the tax savings start to decrease. At earnings of \$238,200 the tax savings are at their lowest and then start to increase again.

## Examples

( Based on 2015 payroll tax rates )

<u>Earning from business</u>	<u>Total Payroll Taxes</u>		<u>Sub S Savings</u>
	<u>Sub S</u>	<u>L L C</u>	
\$ 20,000	\$ 1,530	\$ 3,060	\$ 1,530
\$ 50,000	\$ 3,825	\$ 7,650	\$ 3,825
\$ 100,000	\$ 7,650	\$ 15,300	\$ 7,650
\$ 150,000	\$ 11,475	\$ 19,120	\$ 7,645
\$ 200,000	\$ 15,300	\$ 20,570	\$ 5,270
\$ 250,000	\$ 18,220	\$ 22,020	\$ 3,800

Note that self-employment taxes ( and the benefits of a Subchapter S corporation ) are significantly reduced if the owner of the LLC has another job where he is already earning over or close to \$119,100.00. If you have W-2 or self employed earnings from other sources please consult with us before making your entity decision.