

CORPORATE ACCUMULATED EARNINGS TAX

In order to prevent large amounts of cash being retained in the corporation instead of distributed to shareholders as **dividends**, an **accumulated earnings tax of 28%** is applied to retained earnings above certain levels, unless the corporation can demonstrate that it is reasonable to retain larger amounts for current or anticipated business needs. The 28% accumulated earnings tax is payable **in addition to** the regular corporate federal income tax.

- A **C-corporation** generally may accumulate up to \$250,000 in earnings without triggering the accumulated earnings tax.
- A **professional corporation** generally may accumulate up to \$150,000 in earnings without triggering the accumulated earnings tax.
- Since **S-corporation** shareholders are personally taxed on corporate earnings, whether distributed or retained by the corporation, the accumulated earnings tax does not apply.

CALCULATING THE CORPORATE INCOME TAX

As a separate tax entity, a corporation must pay federal income tax on its taxable income, calculated as follows:

Step 1: Determine Gross Income

Gross corporate income includes gross sales from goods sold, gross receipts from services provided, rents, royalties, interest received, dividends received and/or capital gains.

Step 2: Subtract Allowable Business Deductions

Corporations can deduct the ordinary and necessary expenses paid or incurred during a tax year in carrying out the trade or business. These deductions can include expenses such as compensation paid to employees, rent, telephone, advertising, office supplies, interest, depreciation, taxes, employee benefits and others.

Step 3: Calculate Income Tax

A corporation subtracts its allowable business deductions from gross income to arrive at taxable income. The following federal corporate income tax rates are then applied to taxable income to arrive at the federal corporate income tax due.

For Taxable Income		The Federal Income Tax Is:	Of the Amount Over:
from:	to:		
\$ 0	\$ 50,000	15%	\$ 0
50,000	75,000	\$ 7,500 + 25%	50,000
75,000	100,000	13,750 + 34%	75,000
100,000	335,000	22,250 + 39%	100,000
335,000	10,000,000	113,900 + 34%	335,000
10,000,000	15,000,000	3,400,000 + 35%	10,000,000
15,000,000	18,333,333	5,150,000 + 38%	15,000,000
18,333,333	Infinity	6,416,667 + 35%	18,333,333

Step 4: Calculate Alternative Minimum Tax

To the extent that the corporate alternative minimum tax exceeds the regular corporate income tax, the corporation must pay the difference.

ABOUT *Our Firm*

BUSINESS
briefs

**Corporation Tax Digest for
Business Owners**

Brought to you by:

MRW
FINANCIAL BROKERAGE
*Life Insurance, Annuities and
Long-Term Care*