CRUMBACK & ASSOCIATES LLC

AUTOMOTIVE ADVISORS AND CPA'S

Should I Elect to Become a C-Corporation?

*A lot of attention and praise in the business world came from the dramatic reduction in federal corporate tax rates from 35% down to 21%. However, this doesn't mean that **Auto Dealers** need to rush to become C-Corporations so they can pay taxes at the 21% tax rate.*

*Yes the 21% tax rate is much lower than the 29.6%***** tax rate you will be subject to on your dealership income if structured as an S-Corp, LLC or Partnership but that is not the whole story.*

C-Corporations face a second layer of tax when owners want to take that money out. To get the money out to the owners, the dealership needs to pay a taxable dividend to the owners, resulting in what we CPA's refer to "Double Taxation". Because the income is taxed twice, it makes the effective federal tax rate of 39.8% for C-Corporations.

*To illustrate, assuming your **dealership** will have $1,000,000 in taxable income and you will want to distribute all of it out to the owners in the near future, your after tax cash comparison will look something like this:*

	S-Corp	C-Corp
Taxable Income	1,000,000	1,000,000
20% Qualified Business Income Deduction	(200,000)	N/A
Adjusted Taxable Income	800,000	1,000,000
Federal Tax at 21%	N/A	(210,000)
Amount Avaialable to Distribute	1,000,000	790,000
Personal Tax on Dividend or Income	(296,000)	(188,020)
Net Cash To Dealer	704,000	601,980
Effective Tax Rate	29.6%	39.8%

Bottom line; you are most likely much better off if you remain structured as an S-Corp, LLC or Partnership.

*******We use this rate because 37% x 80% = 29.6%, as a result of applying the 20% qualified business income deduction. See "20% qualified business income deduction" article for details.*

If you wish to discuss the impact of these rules on your particular situation, please email me at marc@crumbackassociates.com or give me a call at 443-286-7969