the legalities, in my state of Florida, a single member limited ...

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When structuring an entity for a client, it is important to know a few basic things. The legalities (if you don't know ask an attorney), and the taxation of said entity. As far as the legalities, in my state of Florida, a single member limited liability company (LLC), the owner is not protected by the LLC, meaning if a lawsuit was to come, the LLC would be disregarded and the suit will go right to the owner.

Then you must choose which state you want to incorporate in. The places where we used to incorporate was Nevada and Delaware, for different reasons. First of all, in Nevada there is no state income tax, and you used to be able to use nominee officers there. What a nominee officer did was be publically listed in the state. When the company was searched, the nominee would come up instead of the actual officer.

However, Nevada decided to raise their fees a lot, not to mention nominees can't be

in that. Not to mention the state takes FOREVER to set up the company unless you pay an exobornant fee for a rush.

Not to mention nexus rules. If you are in California, and you set up a Nevada corporation, you still have to file as a foreign corporation in California, which does not preclude you from California sales tax, income tax, or franchise fees. So we are back to incorporating in the state in which the client does business.

Now we have to discuss taxes. With the Tax Cuts and Jobs Act of 2017, everything is on the table. I am going to be the first to say this, I absolutely hate the IRC §199A deduction, It's convoluted, complicated, and worst of all the 20% deduction doesn't factor into adjusted gross income (AGI), it is taken below the line, instead of above the line, where it should be. Besides that point, its time to listen to your client. In the near term are they going to net at least $15,000 in their first year? At $15,000, self-employment tax would be $2,295. The cost to do a corporate return would be about $1,700, so they would save money electing to be an S-Corporation. However, some advice here, just because the client is projecting that they will make $15,000, doesn't mean that will actually happen.

I am a little strange, in that I refuse to charge a client more than what they will save in taxes. My wife Belsis is my partner, and the first time she heard me say that to a client, she gave me a look like, we have to eat. The client I gave that advice to, remembered it, and two years later when they had a big business, they came right back to us.

With the company aforementioned, form an LLC. The reason is that it is the best legal entity, and taxwise it is flexible. You can form the company, keep in touch with the client, and the following tax season, if they didn't make $15,000 or more, then they are just treated as a disregarded entity. If they did make over $15,000 then as

long as you file Form 1120S by March 15th you can simply file Form 2553 under 2013-

Here is where it gets interesting. If you are an unmarried individual and your income exceeds $38,700, or married and your income exceeds $77,400 you are in the 22% tax bracket. It might be time to rethink the S-Election. A C-Corporation pays tax at 21%, You may be asking yourself, "what difference does 1% make?" Well, think about what you can do in a C-Corporation. If you ask your client what they are spending their distributions on, most will tell you tax-free fringe benefits. Some of which include, health insurance, health savings account (HSA), auto expenses, etc. You can deduct health insurance in a C-Corporation, not to mention you can replace that HSA with a Health Reimbursement Account (HRA), which has no limitations on the amount that you can contribute. If you don't use it, it simply rolls over. Not to mention, the owner can have a company car. You raise the salary of the owner so that they can fully fund retirement accounts, and best of all, all of those non-deductible expenses that they had as an S-Corporation, are now deductible, and the tax rate is a flat 21%.

The point I am making is when you are structuring an entity, the key is to make it flexible, so you can change the tax structure if need be.

Small Business