

Leveraging the New Flat 21% Tax Bracket for C-Corporations

Tax rates for C-Corporations are at an all-time low. Since the tax tide frequently changes, now might be a good opportunity to take advantage of these lower tax rates before they go back up.

Previously, C-Corporations were taxed at up to 39% (federal). Some C-Corporations may have moved this higher taxed income into lower individual tax brackets by increasing the owners' salaries, paying bonuses and paying higher rent on personally owned business real estate.

Now, the C-Corporation is in a 21% bracket no matter how much income it generates. The employee/shareholders, however, could be in a personal federal tax bracket as high as 40.8%. A bonus could lead to higher overall tax.

Cross-Purchase Funding

Life insurance funding for a cross-purchase buy-sell agreement has traditionally been done with bonuses paid to the shareholders. This may no longer be advised. In addition to higher individual tax rates, the bonus may be subject to FICA and other employment taxes that both the business and employee must pay.

Consider a dividend instead of the bonus. While a dividend is not tax deductible to the business, the shareholder is taxed at between 0% and 20% (depending on other income), rather than at his or her marginal tax rate. Additionally, there are no FICA or other payroll taxes on dividends. The dividend's "double taxation" (once at the corporate level and again at the shareholder level) maybe less than the taxation of a bonus.

Accumulated Earning Tax

Businesses have tended to accumulate earnings inside the company in an effort to avoid the double taxation of a dividend to the shareholders. Now might be the time to pay out some of the accumulated earnings while corporate tax rates are low and dividends are taxed at a favorable rate.

Split Dollar Life Insurance

If a C-Corporation shareholder needs personal life insurance, consider an endorsement split dollar arrangement. Premiums on a company-owned policy are paid with corporate after-tax (21%) dollars and the cash accumulation in these policies can be used to fund a non-qualified retirement plan or other benefit plan for the owners. The plan can also provide some or all of the death benefit to the owner's beneficiary income tax free.

Recent changes in the tax law bring a wide range of both questions and opportunities for business owners. Talk to your attorney and/or CPA for information about how the new corporate tax rate might impact you and your business based on your individual situation.

* All products and services may not be available in all states

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