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# Effective Business Income Tax Rates In Light of 2017 Tax Law Changes

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# Distributing 100% of Corporate Net Income After Income Tax (II.E.1.a.)

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Income after Income Tax	Individual in Top Bracket	Individual in Modest Bracket
Corporate Taxable Income	\$100,000	\$100,00
Federal and State Income Tax	<u>-26,000</u>	<u>-26,000</u>
Net Income after Income Tax	\$74,000	\$74,000
Income Taxes at 28.8% or 20%	<u>-21,312</u>	<u>-14,800</u>
Net Cash to Owner	<u>\$52,688</u>	<u>\$59,200</u>

# Distributing 50% of Corporate Net Income After Income Tax (II.E.1.a.)

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Income after Income Tax	Individual in Top Bracket	Individual in Modest Bracket
Corporate Taxable Income	\$100,000	\$100,00
Federal and State Income Tax	<u>-26,000</u>	<u>-26,000</u>
Net Income after Income Tax	\$74,000	\$74,000
Distribution to Owner	\$37,000	\$37,000
Income Taxes at 28.8% or 20%	<u>-10,656</u>	<u>-7,400</u>
Net Cash to Owner	<u>\$26,344</u>	<u>\$29,600</u>
Corporate Cash Plus Shareholder Cash	<u>\$63,344</u>	<u>\$66,600</u>

# Distributing None of Corporate Net Income After Income Tax (II.E.1.a.)

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Distributing None of Corporate Net Income After Income Tax	\$100,000
Federal and State Income Tax	<u>-26,000</u>
Net Income after Income Tax	<u>\$74,000</u>

# Comparing Taxes on Annual Operations of C Corporations and Pass-Through Entities (II.E.1.)

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	Individual in Top Bracket	Individual in Modest Bracket
Distributing 100% of Corporate Net Income After Income Tax	47.3%	40.8%
Distributing 50% of Corporate Net Income After Income Tax	36.7%	33.4%
Distributing None of Corporate Net Income After Income Tax	26.0%	26.0%
S Corporation, Partnership, or Sole Proprietorship (Pass-Through)	34.6%-45.8%	27.4%-46.2%

C corporation deducts state income tax on business operations; pass-through owners have limited state income tax deduction (but unlimited property tax deductions).

Reinvested C corporation earnings will be taxed later when the company is sold, which just changes the timing of the 47.3% or 40.8% rate above, unless held until death or qualify for Code § 1202 exclusion (II.Q.7.k.). Reinvested pass-through earnings add to tax basis.

# Conclusion

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