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Corporate Structure Change



Should you change your corporate structure?

It looks like the health legislation is slogging its way through Congress this summer. We now have the return of Paygo which means that all new spending legislation has to have funding to go along with spending. As a result, Congress and the White House may have to come up with approximately one trillion dollars in funding to afford this new legislation.

One of the ideas we're seeing is a surtax on individuals making over \$250,000 per year or couples over \$350,000. This proposal will not cause problems for most wage earners. However, for private businesses that are relatively successful it could be huge. Many private businesses are Sub Chapter S Corporations. This means owners pay taxes at the owners' individual tax rates based on a pro rata share of business ownership.

Perhaps because the concepts of pass-through taxation and Sub Chapter S Corporations take more than thirty seconds to explain, we don't see the media or politicians explaining the issues associated with raising taxes on small and privately held businesses. Those of us who work and operate a business that shows a profit of \$250,000 or more might see tax increases that are large enough to prompt us to rethink what the corporate form our business should be.

A possible new scenario

Between sun-setting the Bush tax cuts and the proposed surtax to support health care reform some businesses could see an increase in their marginal tax rate of 10 percentage points. This would be a twenty five percent tax increase for some businesses. A tax increase that large would cut into the ability to purchase capital equipment, pay back loans or expand your business.

If these tax increases are actually implemented it might be time to think about changing the status of your corporation from a Sub Chapter S Corporation to a C or regular corporation. If you operate your business as a C Corporation, the corporation would have its own tax rate, and you as an employee would have another tax rate.

Changing to a C Corporation will cause you to think about your business in a different way. If the change saves on your tax bill, the change might be worthwhile.

When thinking about changing to a C Corporation you should consider the following:

- Whether you will sell your company to a third party in the future.
- The total taxes you will be paying as a C Corporation versus the total taxes you would have paid as a Sub Chapter S Corporation.
- How to harvest cash in the future from retained earnings from the C

We believe that a successful wealth management relationship starts with clarity of purpose.

Before embarking on any plans or strategies with our Client, we first seek to develop a clear understanding of your personal and financial goals.

We then work with you to select and implement strategies that will help you move toward your goals.

Corporation.

Of course, there are other considerations that come with restructuring your company which should be addressed with your CPA before making any changes. The professionals at Stage 2 Planning Partners as part of our total wealth management services would be happy to work with you and your CPA in evaluating your existing corporate structure and which one makes the most sense for you under our the new tax regime we believe we are likely to see.

Warmest Regards,

Stage 2 Planning Partners

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