

Financial, Legal & Tax Advisory

Published by The Center for Financial, Legal & Tax Planning, Inc.



Roman A. Basi, President of The Center, is an Attorney, CPA, Real Estate Broker, and Title Insurance Agent. Roman speaks and advises The Center's clientele on such matters as Business Law, Succession, Estate & Tax Planning, and Real Estate.



Dr. Bart A. Basi, Senior Advisor of the Center for Financial, Legal & Tax Planning, Inc., is an expert on closely-held companies, an attorney, and CPA. He is a member of the American Bar Association's Tax Committees on Closely-Held Businesses and Business Planning.

Benefits of a C-Corporation

When starting or purchasing a business, the entity's classification is very important. There are several different options, such as sole proprietors (where income is reported on an individual's schedule C) or partnerships (where income is reported on a business' Form 1065). Other individuals, however, may find it more beneficial to elect as a corporation, more specifically a C Corporation, to minimize tax burdens. What exactly is a C Corporation? A C Corporation is a business entity that is taxed separately from its owners under Subchapter C of Chapter 1 of the Internal Revenue Code. Many businesses organized under a Federal or State statute that refers to the entity as a corporation are automatically treated as a C Corporation for federal tax purposes.

A C Corporation is owned by its shareholders, and those shareholders elect a board of directors. This board of directors is responsible for the oversight of any corporate business and affairs. Corporate officers carry out the day-to-day management of the business, and in smaller corporations, those members of the board are often members of management as well. C corporations can be either publicly held or privately held entities. Public C Corporations sell shares to the public, while privately held companies do not. When looking at filing taxes as a C Corporation, you will use Form 1120 to report business financial information such as income, gains, losses, credits, and deductions.

With the corporation being recognized as a separate tax-paying entity, you have protection from the flow through audit to personal returns. Along with this, C Corporations face a lower minimum tax rate. The 2017 Tax Cuts and Jobs Acts permanently changed the tax structure for C corporations. Essentially, if you are a C corporation in the United States, you will pay a flat tax of 21%. Another great benefit of a C Corporation is a valuable section of the Internal Revenue Code known as Section 1202. Section 1202 allows founders and investors of corporations to exclude up to 100% of their capital gains derived from the sale of Qualified Small Business Stock (QSBS) held for more than five years.

While there are some stringent requirements to qualify, this is just one of the many benefits of being a C Corporation. While most people understand the seller's side of a 1202 sale, it is important to understand buyer strategies when purchasing a C-Corporation. The acquisition of C Corporation stock from a secondary purchase (shareholder to shareholder) would not be QSBS when in the hands of the purchaser. The seller of that stock, however, may be eligible for Sec. 1202 benefits if all the requirements are met. Buyers will be more likely to acquire the assets of a target through a NewCo instead of purchasing the stock directly from a seller.

When looking at an asset purchase, the purchaser will be able to receive a basic step-up for acquiring the target's assets. Along with this, if cash is contributed to a NewCo by the purchaser in exchange for originally issued stock and then the NewCo purchases the target assets, the NewCo stock the purchaser received may be QSBS if all the other requirements are met (held for 5 years, etc.). Sellers look to avoid any of the corporate-level tax imposed by an asset sale. This is why sellers usually insist upon a stock sale. The NewCo stock received by the purchaser could still be considered QSBS even if NewCo is being used as a holding company by the purchaser to acquire target stock.

The purchaser often has many reasons for using a holding company to purchase stock from the target. Holding companies are often preferred by investors in this scenario because they block any of the target's historical earnings and profits. No language in Sec. 1202 or other guidance from the IRS would prevent NewCo stock from being QSBS in this situation. Business owners must check immediately with their business broker, accountant, or legal counsel regarding their business structure. This is especially true for those who plan to sell within the next couple of years. If you are looking into starting a small business or even purchasing an existing company, do not hesitate to reach out to the professionals at The Center for Financial, Legal, and Tax Planning, Inc. at our website, www.taxplanning.com or by phone at (618) 997-3436.

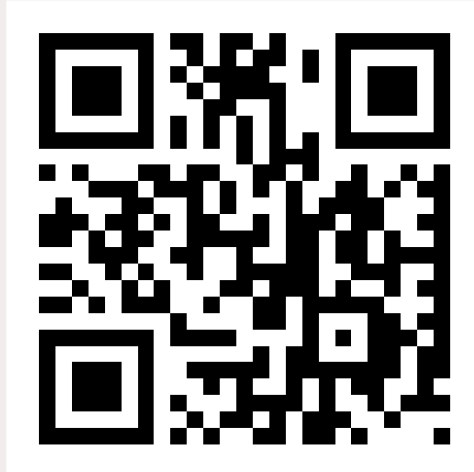
Basi, Basi & Associates at The Center for Financial, Legal, & Tax Planning, Inc.

Mergers & Acquisitions | Retirement and Estate Planning | Business Valuation | Tax Aspects of Business Decision
Accounting Service | Business Succession Planning | Strategic Planning and Negotiation for Buying or Selling a Business
4501 W DeYoung St., Suite 200 | Marion, IL 62959 Phone: (618) 997-3436 | Fax: (618) 997-8370 | www.taxplanning.com

**BASI, BASI & ASSOCIATES AT THE CENTER FOR
FINANCIAL, LEGAL & TAX PLANNING, INC**

TO VIEW OUR WEBSITE

SCAN ME!



INFO@TAXPLANNING.COM



CHECK OUR WEBSITE ONLINE, OPEN YOUR
PHONE CAMERA AND SCAN THIS QR CODE



4501 W DEYOUNG ST.,
SUITE 200 | MARION, IL
62959



618-997-3436



WWW.TAXPLANNING.COM



WWW.FACEBOOK.COM/TAXPLANNINGATTHECENTER



WWW.LINKEDIN.COM/COMPANY/BASIBASIASSOCIATES/



TWITTER.COM/_TAXPLANNING



WWW.INSTAGRAM.COM/BASIBASIANDASSOCIATES/
