

I. Business Entities

A. C Corporations

1. Federal taxes
a) Income Taxes¹

Taxable income over	Not Over	Tax Rate
\$0	\$50,000	15%
\$50,000	\$75,000	25%
\$75,000	\$100,000	34%
\$100,000	\$335,000	39%
\$335,000	\$10,000,000	34%
\$10,000,000	\$15,000,000	35%
\$15,000,000	\$18,333,333	38%
\$18,333,333	.....	35%

Personal service corporations are subject to a flat tax of 35% regardless of their income.²

- b) Accumulated Earnings Tax³

In addition to the regular tax, a corporation may be liable for an additional 15% tax on accumulated taxable income in excess of \$250,000 (\$150,000 for personal service corporations).

2. CA State Taxes
a) California charges C corporations, as well as S corporations, LLCs and limited partnerships, a minimum annual franchise tax of \$800, payable to the Franchise Tax Board.
b) California imposes an 8.84% flat tax on C corporations. Bank and Financial C-Corporations are taxed at 10.84%.⁴

B. S Corporations

1. Federal taxes

S corporations are treated as pass-through tax entities, meaning that the profits or losses of the corporation pass through the business and are reflected and taxed on the individual tax returns of the shareholder, rather than being reported and taxed at a separate business level.

2. CA state taxes

An S corporation is taxed on its net income at a rate of 1.5 percent, with a minimum tax of \$800. Financial S corporations are taxed at a rate of 3.5%.⁵

C. Limited Liability Companies

1. Federal taxes

LLCs can elect to be taxed as a pass through entity (partnership taxation) or a corporation (corporate taxation). As a pass through entity, the profits or losses of the LLC pass through the business and are reflected and taxed on the individual tax returns of the members, rather than being reported and taxed at a separate business level. If the LLC elects corporate tax treatment, it will then be taxed at the applicable corporate tax rates.

2. CA state taxes

a) California imposes on LLCs, as well as C corporations, S corporations and limited partnerships, a minimum annual franchise tax of \$800, payable to the Franchise Tax Board.

b) California imposes on LLCs an additional “gross receipts fee,” which is essentially a tax based on the LLC's total income from all sources derived from or attributable to the state of California, and includes the cost of goods sold.⁶

Gross receipts from California Over	Not Over	Fee
\$0	\$249,999	\$0
\$250,000	\$499,999	\$900
\$500,000	\$999,999	\$2,500
\$1,000,000	\$4,999,999	\$6,000
\$5,000,000	.....	\$11,790

II. Payroll Taxes

A. Federal Payroll Taxes⁷

1. Federal Unemployment (FUTA) Tax. For 2008 and 2009, the FUTA tax rate is 6.2%. The tax applies to the first \$7,000 paid to each employee as wages during the year.

2. Social Security Tax (FICA). The employee tax rate for social security is 6.2%. The employer tax rate for social security is also 6.2%. Total, this is 12.4%. The 2008 wage base limit was \$102,000. For 2009, the wage base limit is \$106,800.

3. Medicare Tax. The employee tax rate for Medicare is 1.45%. The employer tax rate for Medicare tax is also 1.45%. Total, this is 2.9%. There is no wage base limit for Medicare tax; all covered wages are subject to Medicare tax.

B. CA Payroll Taxes⁸

1. Unemployment Insurance (UI). The UI taxable wage limit for 2009 is \$7,000 per employee, per year. The UI tax rate for new employers is 3.4 percent for up to three years.

2. Employment Training Tax (ETT). The 2009 ETT rate is 0.1 percent (.001) of the first \$7,000 per employee, per year.

3. State Disability Insurance (SDI). The 2009 SDI tax rate (which includes Disability Insurance and Paid Family Leave) is 1.1 percent.

4. SDI taxable wage limit is \$90,669 per employee, per year.

III. Self-employment tax (SE Tax)⁹

This is a social security and Medicare tax primarily for individuals who work for themselves. It is similar to the social security and Medicare taxes withheld from the pay of most wage earners. The self-employment tax rate is currently 15.3%. The rate consists of two parts: 12.4% for social security (old-age, survivors, and disability insurance) and 2.9% for Medicare (hospital insurance). Only the first \$106,800 of the individual's combined wages, tips, and net earnings are subject to any combination of the 12.4% social security part of SE tax, social security tax, or railroad retirement (tier 1) tax. All net earnings of at least \$400 are subject to the Medicare part of SE tax.

IV. Tax Rate Schedules for Individuals and Trusts--2009

A. Single Taxpayers—2009¹⁰

Taxable income:		Tax:		
Over	But not over	Tax	+%	On amount over
\$ 0	\$ 8,350	\$ 0.00	10	\$ 0
8,350	33,950	835.00	15	8,350
33,950	82,250	4,675.00	25	33,950
82,250	171,550	16,750.00	28	82,250
171,550	372,950	41,754.00	33	171,550
372,950	.....	108,216.00	35	372,950

B. Married Individuals Filing Joint and Surviving Spouses—2009¹¹

Taxable income:		Tax:		
Over	But not over	Tax	+%	On amount over
\$ 0	\$ 16,700	\$ 0.00	10	\$ 0
16,700	67,900	1,670.00	15	16,700
67,900	137,050	9,350.00	25	67,900
137,050	208,850	26,637.50	28	137,050
208,850	372,950	46,741.50	33	208,850
372,950	.....	100,894.50	35	372,950

¹ See <http://www.smbiz.com/sbrl001.html>.

² Id.

³ 26 U.S.C. § 531. See <http://www.smbiz.com/sbrl001.html#pis09>.

⁴ For more information, see <http://www.ftb.ca.gov/businesses/fag/717.shtml>.

⁵ For more information, see <http://www.ftb.ca.gov/businesses/fag/717.shtml>.

⁶ For more information, see http://www.ftb.ca.gov/forms/2008/08_568bk.pdf.

⁷ For more information, see <http://www.irs.gov/pub/irs-pdf/p15.pdf>.

⁸ For more information, see http://www.edd.ca.gov/pdf/pub_ctr/de44.pdf.

⁹ For more information, <http://www.irs.gov/businesses/small/article/0,,id=98846,00.html>.

¹⁰ See <http://www.smbiz.com/sbrl001.html#pis09>.

¹¹ Id.



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