Knueven, Schroeder & Co.
CERTIFIED PUBLIC ACCOUNTANTS
Jerome B. Schroeder, CPA
Douglas E. Schleucher, CPA
Ann E. Woolum, CPA
Timothy J. Gephart, CPA
Mark L. Schroeder, CPA
Angela L. Bursby, CPA
Jeffrey C. Quinlan, CPA

# Balance *sheet*

## C Corporation vs Pass Through Entity Tax Attributes

By Thomas Tomlins

One of the most common issues that aspiring entrepreneurs face when forming a new business is what type of entity to form. The most used business entities fall into two broad groups: C corporations and pass-through entities.

For federal income tax purposes, a C corporation is a separate taxpaying entity. A corporation conducts business, realizes net income or loss, pays taxes, and distributes profits to shareholders. Income is taxed to the corporation when earned and taxed again when distributed to the shareholders as dividends. Therefore, C corporations are subject to double taxation of their profits. Ordinary losses for C corporations are not passed through to shareholders. Losses can be deducted only at the corporate level as net operating loss carrybacks (for certain entities) and carryforwards. Capital gains for C corporations are taxed at the same rate as ordinary income. Capital losses are allowed only to the extent of capital gains. Net capital losses are carried back three years and forward five years.


Pass-through entities include S-corporations, partnerships, and single member LLC's. Pass-through entities have very different tax attributes compared to C-corporations. Profits from pass-through entities are passed through directly to owners, escaping corporate-level tax. Profits are then taxed as ordinary income on the owner's individual income tax returns. Profits from pass-through entities may qualify for a Qualified Business Income deduction on the owner's individual tax returns. Ordinary losses are passed through directly to owners. Current-year losses are deductible up to the owner's basis in the entity in the case of a partnership or S corporation and against other ordinary income in the case of a single member LLC. Capital gains also pass through to owners and are eligible for favorable capital gain tax rates for individuals. Likewise capital losses pass through to the owners and are deductible subject to the limitations on the owner's individual tax return.

These are just a few of the differences in tax attributes between C corporations and pass-through entities. When choosing an entity to form your business, it is important to consider not only the tax attributes but also the non-tax attributes as well (liability protections, cost of organization, ability to raise capital, etc.). If you would like to discuss these tax attributes further or would like to discuss what type of entity to form your new business, please contact us.