

SELF-EMPLOYED / SINGLE MEMBER LLC

- Income is reported on **Schedule C** of your personal return—no separate entity return at the federal level
- California requires Form 568 and a **minimum \$800 annual fee**
- If married in California (a community property state), you're still treated as a single member LLC
- Self-employment tax:** 15.3% on your net earnings—you get a deduction for half, but it's still significant
- When you work for an employer, they cover half of your payroll taxes—when you're self-employed, you cover the whole thing

PARTNERSHIPS

- A **separate tax return** is required at both the federal and California level
- General Partnership:** Can be created unintentionally—if you're engaged in a profit-making activity with someone else, the IRS or state may deem you a partnership
- General partnerships have **no liability protection**—you could be liable for your partner's actions
- Limited Partnership:** General partners are active and liable; limited partners are passive investors not subject to self-employment tax
- LLP (Limited Liability Partnership):** For professionals like CPAs and attorneys—protects one partner from another's actions
- Partners receive **guaranteed payments**, not salaries—and those are subject to self-employment tax

S CORPORATION

- A pass-through entity with a **separate tax return** required each year
- California: \$800 minimum **or** 1.5% of net income, whichever is higher
- Key benefit:** Pay yourself a reasonable salary (subject to payroll tax), and the remaining profit passes through as ordinary income—not subject to self-employment tax
- Typically makes sense once your LLC is generating enough income to offset the additional compliance costs
- Restrictions:** No foreign ownership, only one class of stock allowed
- Important:** Don't use your S corporation as an investment portfolio—appreciated assets are difficult to distribute without triggering tax

C CORPORATION

- A truly separate entity—no pass-through to your personal return
- 21% federal tax plus 8.84% California
- Better for raising outside investment or going public
- Easier to convert S-corp to C-corp than the reverse
- Section 1202 QSBS:** Potential to exclude significant capital gains when selling

ESSENTIAL TAKEAWAYS

- ✓ Self-employed? You're paying **15.3% self-employment tax** on your earnings
- ✓ An **S corporation** can help limit self-employment tax by splitting income between salary and distributions
- ✓ California has an **\$800 minimum** annual fee for LLCs, S-corps, and partnerships
- ✓ **Partnerships** can be created unintentionally—know when you might be in one
- ✓ Partners get **guaranteed payments**, not salaries
- ✓ **Don't commingle** personal and business funds
- ✓ Keep your company in **active status** with the Secretary of State
- ✓ Don't hold investments inside an **S corporation**—they're hard to get out

Action Item: If you're self-employed and paying significant self-employment tax, ask us whether an S corporation election might make sense for your situation.

BEST PRACTICES FOR SMALL BUSINESS OWNERS

- **Don't commingle funds:** Keep business and personal accounts completely separate—this is one of the biggest ways to lose your liability protection
- **File your Statement of Information:** California will deactivate your company if you don't file this simple form on time
- **Stay in active status:** If your company is suspended, you can't take advantage of benefits like the PTE election
- **Distribute your profits:** Don't leave excess cash sitting in your S corporation—distribute it to yourself
- Keep good books and records from the start—it makes everything easier down the road

CHOOSING THE RIGHT STRUCTURE

- **Starting out:** A single member LLC is typically the right first step for most businesses
- **Growing:** Once income reaches a certain level, converting to an S corporation can reduce self-employment tax
- **Raising capital or going public:** A C corporation provides more flexibility for outside investors
- Service businesses often benefit most from the S corporation structure
- Real estate ventures typically work better as partnerships or LLCs—not C corporations

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Professional Consultation Recommended: Business structure decisions are highly personal and depend on your specific situation, industry, and goals. We strongly recommend consulting with a qualified CPA or tax professional before making any entity elections or changes.

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