



**Entrepreneur
& Family**
BUSINESS COUNCIL

Entity Selection and Taxation: A Practical Guide

Presented by Karen Snodgrass, Principal at Cray Kaiser



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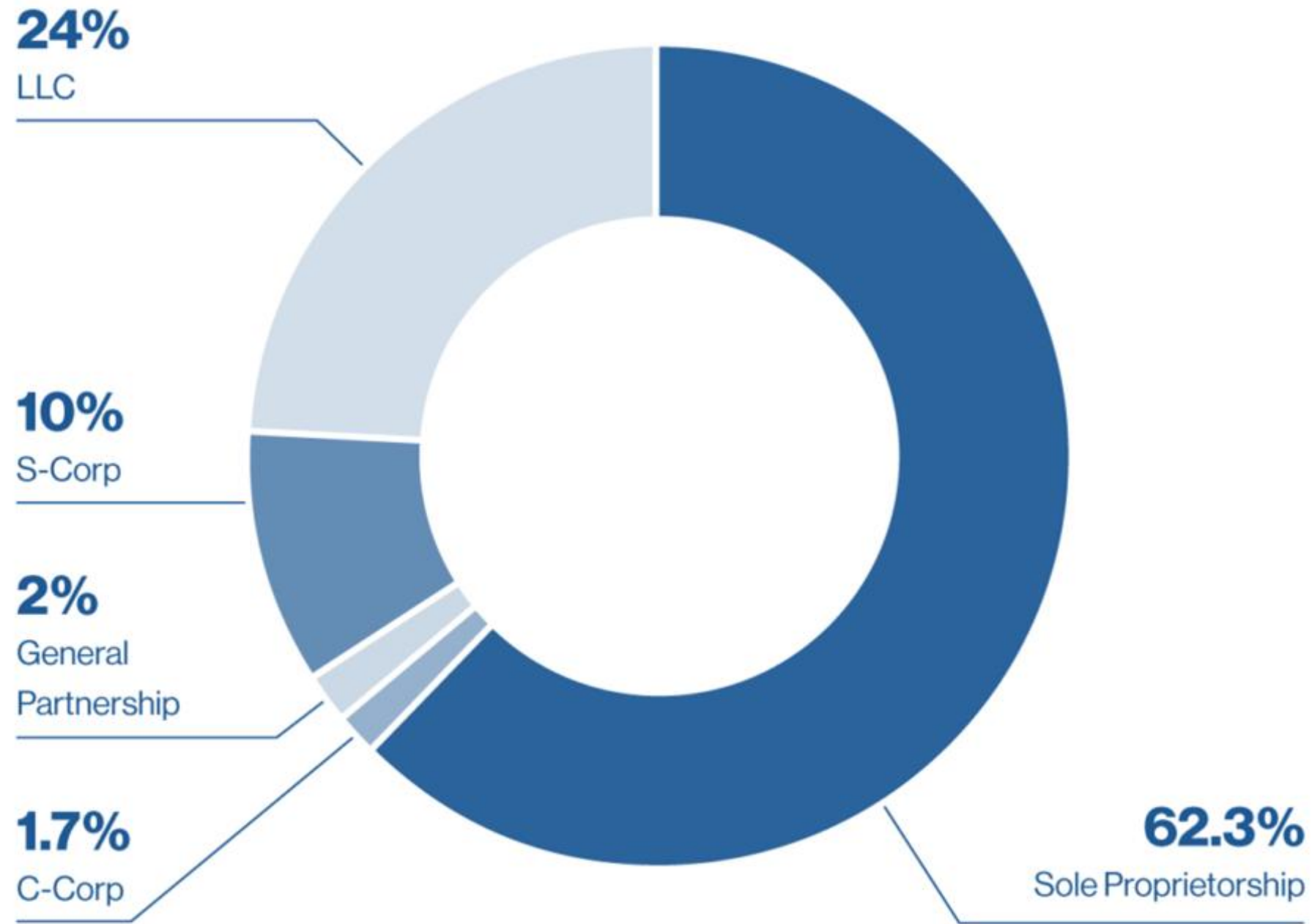
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Presenter Intro

Karen Snodgrass oversees Cray Kaiser's tax division, with niche expertise in closely held and family-owned businesses. In her tax planning work, she minimizes liability at the entity and individual level by helping clients think through the tax implications of their decisions throughout the year.

Having successfully navigated evolving tax codes for 30-plus years - more than 25 of which she spent at Cray Kaiser - Karen leads seminars on tax law updates at the firm.





U.S. Business Structures

The overwhelming majority - **more than 6 in 10 businesses** - are sole proprietorships, reflecting how many small businesses start out in the simplest legal form.

LLCs follow at **24%**, offering liability protection and tax flexibility.

S-corporations make up **10%**, appealing to owners who want pass-through taxation while also reducing self-employment tax.

C-corporations represent less than **2%**, typically chosen by larger companies that need outside investors, stock options, or the ability to attract foreign ownership.

About a Sole Proprietorship

- Income reported on personal tax return (Schedule C)
- **Pro:**
 - ✓ No separate business tax filing required
- **Cons:**
 - ✓ Higher audit risk
 - ✓ All net income subject to SE tax

About a Partnership

- Files informational return
- Profits pass through to partners
- **Pros:**
 - ✓ Most flexible in allocations
 - ✓ Liability protection
- **Cons:**
 - ✓ Active members' income subject to SE tax
 - ✓ No W2 for owner



About an S-Corporation

- Pass-through entity
- Owners report pro-rata share of income
- **Pros:**
 - ✓ Owners take salary (W2)
 - ✓ Net income not subject to SE tax
- **Cons:**
 - ✓ Ownership limitations



About a C-Corporation

- Not a pass-through entity
- Pros:
 - ✓ Ownership includes other corporations & foreign owners
- Cons:
 - ✓ Double taxation – corporate and shareholder level

About an LLC

- Can be taxed as a:
 - ✓ Sole Proprietorship
 - ✓ Partnership
 - ✓ Corporation



\$ TAXATION \$



Partnership
(GP, LP, OR LLP)

DEFAULT



LLC

DEFAULT

SPECIAL
ELECTION

SPECIAL
ELECTION

Corporation



SPECIAL
ELECTION

DEFAULT



Which Tax Entity Meets Your Goals?

| Goal | Individual | Single Member LLC | Multi Member LLC (taxed as partnership) | C Corporation | S Corporation |
|-----------------------------------|------------|-------------------|---|---------------|---------------|
| Liability protection | Red | Green | Green | Green | Green |
| Reduced administrative complexity | Green | Green | Yellow | Red | Red |
| Allows pass through taxation | Green | Green | Green | Red | Green |
| Tax flexibility in allocations | N/A | N/A | Green | N/A | Red |
| Debt provides basis to owners | Green | Green | Green | N/A | Red |
| Allows for foreign owners | N/A | N/A | Green | Green | Red |
| Clear and tax efficient exit plan | Green | Green | Yellow | Yellow | Yellow |

Chance of Meeting Goals:

Green = Better

Yellow = Moderate

Red = Little to none

Example 1

- Two individuals are starting up a consulting company from scratch.
- It will just be the two of them – no employees are expected.
- As it's consulting, they don't have a lot of expenses – mostly just travel and overhead for their home offices.
- They don't intend their business to scale too big, but they anticipate an annual revenue of \$600K - \$750K.



Example 2a

- Two individuals are starting a manufacturing company.
- The company will hire a number of employees.
- The company will require a significant bank loan to get up and running.



Example 2b

- Two individuals are starting a manufacturing company.
- The company will hire a number of employees.
- The company will require a significant bank loan to get up and running.
- **The manufacturing company will be buying property to house their operations.**



Example 3

- An individual has uncovered a technology that is anticipated to be wildly successful with a go to market in 3 years.
- The company is not expected to be profitable for a few years, but they are banking on a significant upside potential.



Example: \$100K after federal tax

| | Individual | Single Member LLC | Multi Member LLC (taxed as partnership) | C Corporation | S Corporation |
|---|------------------|-------------------|---|-------------------|------------------|
| Taxable income | \$ 100,000 | \$ 100,000 | \$ 100,000 | \$ 100,000 | \$ 100,000 |
| QBI deduction | \$ (20,000) | \$ (20,000) | \$ (20,000) | - | \$ (20,000) |
| Taxable income after QBI | \$ 80,000 | \$ 80,000 | \$ 80,000 | \$ 100,000 | \$ 80,000 |
| Federal income tax | \$ 26,986 | \$ 26,986 | \$ 26,986 | \$ 21,000 | \$ 29,600* |
| Self employment tax | \$ 14,130 | \$ 14,130 | \$ 14,130 | - | -** |
| After tax cash available | \$ 58,884 | \$ 58,884 | \$ 58,884 | \$ 79,000 | \$ 70,400 |
| Tax on distribution | - | - | - | \$ 18,802 | - |
| After all taxes and distribution | \$ 58,884 | \$ 58,884 | \$ 58,884 | \$ 60,198 | \$ 70,400 |

*Assumes the highest effective tax rate.

**No self employment tax; however, there will be payroll taxes based on reasonable compensation paid to owner.

IRS/state requires estimated payments during the year.

Due dates: April 15, June 15, September 15, January 15

Includes: Income tax + SE tax
W2 withholding reduces quarterly estimates

Corporations also subject to quarterly requirements

Paying Taxes During the Year



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How Much to Pay

Rule of thumb: 20-30% of income

Interim tax projections at least once/year

Use good financial statements

Watch tax brackets, cash flow, & timing



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Inflation-Adjusted Tax Brackets for 2026



SINGLE



MARRIED (FILING JOINTLY)

Tax Rates

10%

12%

22%

24%

32%

35%

37%

Taxable Income

Up to \$12,400

\$12,401 to \$50,400

\$50,401 to \$105,700

\$105,701 to \$201,775

\$201,776 to \$256,225

\$256,226 to \$640,600

\$640,600+

Taxable Income

Up to \$24,800

\$24,801 to \$100,800

\$100,801 to \$211,400

\$211,401 to \$403,550

\$403,551 to \$512,450

\$512,451 to \$768,700

\$768,701+

Most Costly Tax Mistakes



Tax Audits Due to Poor Records

Incomplete or missing business documentation can prevent the statute of limitations from starting, exposing businesses to extended IRS scrutiny.



Ignoring IRS Notices

Failure to respond to tax notices often escalates issues into penalties or full audits, increasing financial exposure and stress.



Payroll Tax Missteps

Failing to deposit payroll taxes or neglecting owner responsibility can result in hefty penalties and personal financial liability.



Lack of Tax Planning

Without proactive planning, businesses miss out on deductions, deferments, and compliance strategies that reduce taxable income.



Presenter Contact Info



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