

## Tax Benefits of Incorporation

Is it less taxing to incorporate?

Some companies may seem to escape death, but they will ever be able to escape taxes. That doesn't mean there aren't some tax benefits out there, though, that only the corporations are getting. Companies are tempted to incorporate for a number of reasons, but more and more often, taxes are the main motivator. But why?

Well, it's important to note right away that incorporation only means tax benefits for some companies. For others, taxes might actually become a bigger problem than they were before. However, potentially, you have a lot to gain – in what you won't be paying in taxes to the government – by incorporating. There are a few basic tax benefits that corporations often rely upon.

The first one is tax deferral. All this means, really, is that a company can keep more of its earnings. How can this be? When a company becomes a corporation, it becomes a separate entity of its owner and thus adheres to different rules than it did before. Typically, an owner must pay taxes directly to the government on his or her net income. But if that same owner has a corporation on his or her hands, it's an entirely new ballgame. The corporation has different tax rates than its owner! Depending on the state, a corporation will have to pay little to no income tax. You can expect that the income tax of a corporation will be significantly lower than a personal income tax.

This may all sound very quaint and appealing, but there's more to the story. The grass isn't necessarily greener on the other side because of a nuisance called double taxation. Double taxation happens when both the shareholder and the corporation are taxed for various profits and gains. Especially when a corporation liquidates, this is a problem. (As new dividends make themselves known.) There are ways to resolve the double taxation dilemma, but it does take quite a bit of thought and planning.

Whether you're running a company or a corporation, you must think about taxes in the long term. Don't just plan for this year and next – think far into the future and foresee problems like double taxation. As you consider the tax benefits of incorporation, make sure to also consider the disadvantages and added complications. If you want to get the best bang for your buck when you incorporate, you must play an active role in the process of turning your company into a corporation. And that means you can't take for granted the promise of tax benefits.

Also keep in mind that tax law is ever-changing and tax benefits that generations before you had may be nonexistent today, while new benefits may take their place. It's advisable to keep up to date about what your state legislatures are coming up with from year to year. Because each company has its own personality and ambitions and of course net profits, some tax benefits may be more disposable than others. The only appeal of tax benefits is that a company retains more of its earnings, so if incorporation is costing you money in other areas, you will want to note this. It's important to weigh all the costs and benefits against each other!

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