



COOK MARTIN POULSON, P.C.

Certified Public Accountants

CLIENT

Canyon Creek Construction

SERVICES

Business Start-up



Canyon Creek Construction is a small general contractor in Salt Lake City, Utah. The owner, James, just started this business. Prior to beginning this new business venture James was concerned about the type of entity and tax consequences of the entity that he chose for his business.

We sat down with James and discussed with him and his attorney the best entity structure. James decided to be an LLC. We then discussed with James the difference of being disregarded entity or S-corporation for tax purposes. In being a disregarded entity James would have to report all his income and expenses on Schedule C, which is one of the most highly looked at forms by the IRS. Also by having to report his income on Schedule C it all would be subject to self employment taxes, even if he had a number of crews doing most of the work. With an S-corporation James would be required to file a separate tax return and quarter reports, but he would not be required to report any of his income on Schedule C for Canyon Creek. In using an S-corporation James would not be required to pay

employment taxes on all of his net income, but he would be required to give himself a reasonable wage. The remainder of the income from Canyon Creek could be pulled out as an owner's distribution. We also explained to James that whether he used a disregarded entity or an S-corporation he would be able to take the same deductions. After discussing all the advantages and disadvantages of how to be taxed, James conclude he would save the most tax and be better off by making the election to be taxed as an S-corporation.