



Considering Becoming An S-Corporation?

Our guest writer this issue is Darlene McMullen, CPA, PA, who shares the benefits and downsides of making your business an S-Corporation.

In a sole proprietorship there is one individual owner. This is the simplest form of business entity. As such, the owner is wholly responsible for all of the liabilities and risks of the business, and all the income and expenses of the entity are on the business owner's personal tax return (Schedule C). If the business makes money for the year, the owner must pay self-employment taxes (i.e., FICA) taxes on the income and this payment is not deductible to the business.

In the preparation of the information required for the Schedule C, only income and expenses are required. Generally, a balance sheet is never developed for the business unless they need one to obtain a loan. Then they must go through and put one together after the fact, which can be a difficult task for the individual owner.

In an S-Corporation there can be one individual owner or up to 100 owners. Owners are provided with the liability protection of a corporation. An S-

UPCOMING PERFORMANCES

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January, 2015

29th - [MACPA's CPA Day in Annapolis](#)

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Corporation passes the corporate income, deductions, and credits through to its shareholders for federal tax purposes. The owner can and is required to take a salary.

The payroll taxes paid by the S-Corporation (i.e., FICA, unemployment) are deductible expenses. The corporation will be maintaining a balance sheet that will include the assets, liabilities and equity of the entity. The development of a balance sheet is important to a business owner. Knowing the assets, liabilities and equity provide a picture of the business rather than just the income and expenses each year.

Being an S-Corporation provides the business owner with the following benefits:

1. liability protection
2. the ability to deduct payroll taxes as an expense
3. balance sheet development

However, some downsides to being an S-Corporation include the need to file articles of incorporation, hold shareholder and director meetings, keep minutes and allow shareholders to vote on major decisions. In Maryland, a personal property tax return (Form 1) must be filed annually and requires a \$300.00 fee for the right to do business in the state. In addition, personal property taxes are assessed on the fixed assets of the business.



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Client Spotlight: Tavern on the Hill



Tavern on the Hill is a restaurant/ bar located at 900 Cathedral St in the heart of the Mt. Vernon community in Baltimore City. The restaurant offers a full menu, from appetizers to entrees, with breakfast served all day. Since opening in 2013, the restaurant has gained a regular, neighborhood clientele, and established a reputation as a friendly place to eat with friends or enjoy a meal.

The Tavern first started working with First Act after they had been in operation for about 6 months. With little business or accounting experience, the owners had invested in QuickBooks for their bookkeeping/accounting system. However, they quickly found that they needed help in utilizing the system effectively, and in understanding basic accounting and bookkeeping principles.

According to Lee Cohen, the Tavern's Vice President, "Dawn was able to quickly come in, review what we had been doing, and make suggestions for changes that would enhance our ability to track finances. She created several templates-e.g. payroll entries, sales tax liability entries- that the Tavern now uses each month." The Tavern went on to contract Dawn to do quarterly reviews and provide assistance as needed in using the QuickBooks system and guidance on issues that arise related to managing the business.

Lee adds, "From the beginning Dawn has been readily available, and has a great ability to discern the essence of the sometimes convoluted questions asked of her and to provide easily, implementable solutions to what seem like very tangled questions. Her support and affirmation of the efforts of the Tavern staff have helped us all to feel more comfortable with day-to-day activities and more assured that they are appropriately and accurately tracking the finances of the business."