

The Ups (and Downs) of using a C Corporation

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Using your qualified retirement assets to finance a new or existing business is a valuable strategy when done properly. The ability to use tax deferred dollars can have a tremendous financial impact on your ultimate accumulation of wealth.

Like most strategies involving saving or deferring taxes, the use of the Rainmaker Plan has various associated rules and restrictions imposed by an assortment of governmental agencies. Perhaps the most misunderstood of these is the requirement that there must be a C-Corporation involved in the transaction. In no uncertain terms, because of a matrix of laws and regulations, the Internal Revenue Service requires the employer securities held by the ROBS (Rollover as Business Startups) structure be that of a C Corporation.

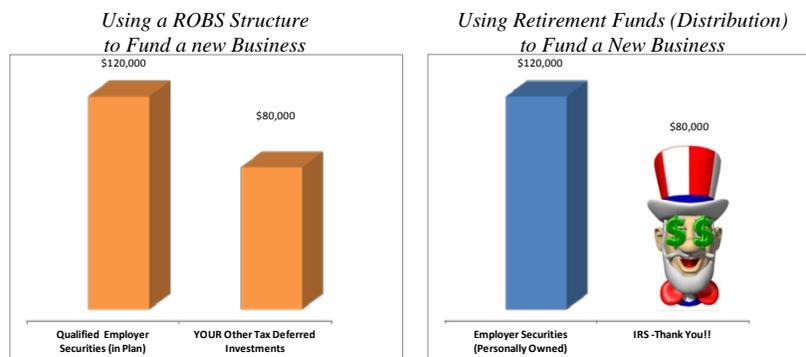
For many accountants and entrepreneurs, a C Corporation may not be the first choice as a tax structure for their newly formed business. The major objection to the C Corporation structure is the corporation is its own tax entity and is not what is known as a “pass through entity”. For this reason, the concept of “double taxation” is the reason why people may initially shy away from C-Corporations. The possibility of “double taxation” occurs because the C-Corporation is required to pay its own taxes, and then any profits distributed to its shareholders are again taxed at the individual level.

There are, however, certain tax benefits to a C Corporation; for instance, favorable taxation of certain fringe benefits (compensations made to employees beyond regular wages, i.e. health benefits) to its shareholders, limited liability for directors, officers, shareholders and employees, and perpetual existence, even if the owner leaves the company. Additionally, there are ways to minimize or eliminate this “double taxation” on an ongoing basis. A corporation may make additional payment of compensation through either salary or bonus (provided it is “reasonable”), thereby minimizing the profits in the corporation. Another strategy is to make a contribution to the Rainmaker Plan; this is a tax deduction for the Corporation, and shareholders defer taxes until time of distribution.

“If you’re looking for a long term business – one that will be profitable, and are using a ROBS Structure, you need someone who knows how to best utilize a C-Corporation to help grow the business and maximize deductions. Benetrends is that someone.”

Len Fischer
Benetrends Founder
Chairman of the Board

When comparing the perceived “downside” to having to use a C Corporation, it is important to realize that by using the Rainmaker, no taxes or penalty taxes were paid when you started your business. Even with “double taxation”, in many situations, the use of a Rainmaker with a C Corporation is ultimately more advantageous than not using the Rainmaker Plan and being taxed as a “pass through entity”. It is often difficult overcoming the giving up of as much as 40% of your retirement assets at the time you start your business. The charts below show the difference between using a Rainmaker (as a C Corp) as opposed to cashing out your Retirement Account and forming another type of corporation. Of the \$200,000 that is invested, both plans use \$120,000 to invest in their business. The remaining \$80,000, using the Rainmaker, can remain invested in stocks, bonds, mutual funds or other investments; meanwhile, cashing out your Retirement Account requires the additional \$80,000 to be paid to the IRS.



Always recognize that as long as the Rainmaker Plan holds any employer securities (stock), it must remain a C Corporation. Remember, the use of your qualified retirement assets to fund a new or existing business is a very valuable strategy **when done properly.**

Please be certain to call, or have your accountant call us anytime you are considering a change in corporate structure. Benetrends is your partner and remains ready to assist you with attaining your objectives.