

# Your Corporate Tax Structure

Article provided courtesy of ABA Accountants and Business Advisors for DVMs



## Why choose an LLP/LLC with subchapter 'S'?

Every current or prospective veterinary hospital owner must be capable of fulfilling multiple roles within his or her business. Significant, often difficult, decisions must be made on a daily (sometimes hourly!) basis. One moment, you are the Chief Medical Officer formulating new protocols for certain conditions. The next, you are the Trauma Surgeon for a 'hit by car' brought in by a distraught client. You may also be the Head of Human Resources, moderating a dispute between employees. The number of titles you hold seems endless!

However, the most challenging role is that of CEO of your small business. As a requirement of the title, you must become comfortable with topics such as managerial and financial accounting, business law, and corporate tax codes. For most veterinarians, these were not topics included as part of the curriculum in veterinary school.

The foundation for the financial health of your business is its corporate tax structure. As a small business owner, you have the option to choose from a set of structures that provide the legal framework governing how your business will operate and be taxed. For most veterinary hospitals, the optimal structure is a Limited Liability Partnership (LLP) or a Limited Liability Corporation (LLC) *with a Subchapter 'S' election*.

General Partnerships and Sole Proprietorships are subject to unlimited legal liability from the entity's creditors. Clearly, this negative exposure is not a good thing. 'C' Corporations are subject to two levels of taxation, which is also an undesirable event.

There are many benefits to the LLP/LLC Sub 'S' structure. They are treated the same as any other type of corporation under state law. However, under federal law, 'S' corps are

not subject to federal tax. This is because the company elects to 'pass through' income, deduction, gain or loss, and tax credits to its shareholders. All of this is accomplished while the 'S' corps retain the legal protection provided by the corporate structure. With regard to state taxes, many allow 'pass through' treatment for state income tax purposes; however, many have some variance from federal rules requiring adjustments for state tax purposes.

An LLP/LLC Subchapter 'S' election legally enables the business to transact with you. In doing so, a world of *tax reducing strategies* becomes available to you. Therein lies the strength of the Subchapter 'S' election! You will be able to realize more of the profit generated by the business by extracting profit from the business before it flows through to your personal return, and is then taxed.

Additionally, when the time comes to retire and sell your business, LLP/LLC Subchapter 'S' corporations avoid the 'double taxation' to which 'C' Corporations are subject.

Finally, here are a few basic rules regarding LLC Sub 'S' corps: They must operate on the calendar year, they may not have more than 100 shareholders, there can be only one class of stock, and neither partnerships nor corporations can be shareholders in any 'S' corps.

About ABA for DVMs: Drawing on experience dating back to the early 1980s, ABA's Business Advisors are positioned to understand the challenges of veterinary medicine, small business ownership, and entrepreneurship. Simply stated, we will lower your income tax burden by thousands of dollars more than we are paid to do so. Supported by a staff of highly-trained accountants, tax return specialists, CPAs, CFPs, Legal Experts, and Enrolled Agents, our team brings a level of expertise not often found in other accounting firms. Reach out to us today by contacting Frank Banesse, Director of Veterinary Services, 336.608.8076. Also visit: [www.abadv.com](http://www.abadv.com).

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