

Table 1: Alex's Tax Obligations

	Alex, as an employee	Alex, as a sole proprietor or single-member LLC	If Alex forms a corporation and works as an employee
Income	\$160,000	\$160,000	\$160,000
\$30,000 deduction for business expenses, including \$10,000 of home office expenses	Not deductible because of the 2 percent floor on miscellaneous itemized deductions	(\$30,000)	(\$30,000)
Schedule C income		\$130,000	
½ self-employment tax		(\$9,184)	
Health savings account	(\$4,300)	(\$4,300)	(\$4,300)
Retirement contribution	(\$23,500) (401(k))	(\$23,500) (Keogh)	(\$23,500) (Profit Sharing)
Corporation owner's wage			(\$65,000)
Employer's FICA on corporation owner's wage			(\$4,973)
<i>Corporate taxable income</i>			\$32,227
<i>Corporate tax</i>			\$6,768
Individual's AGI	\$132,200	\$93,016	\$65,000
Standard deduction	(\$15,000)	(\$15,000)	(\$15,000)
Qualified business income deduction		(\$15,603)	
Taxable income	\$117,200	\$62,413	\$50,000
Cash Flow: \$160,000 of income after \$57,800 of business, medical, home office, and retirement expenses	\$102,200	\$102,200	\$102,200
Taxes:			(\$6,768)
• <i>Federal corporate tax</i>			
• <i>FICA</i>	(\$12,240)		(\$9,946)
• <i>Self-employment tax</i>		(\$18,368)	
• <i>Federal individual income tax</i>	(\$20,975)	(\$8,645)	(\$5,914)
Total taxes	(\$33,215)	(\$27,013)	(\$22,628)
Net cash flow	\$68,985	\$75,187	\$79,572