

# BUSINESS ENTITIES

Revenue and  
Transportation  
Committee

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Revenue & Transportation Committee Meeting  
February 16 & 17, 2006

Exhibit #18

## Corporations

- C – corporation
- Tax paying entity – form 1120
- Liability protection
- Federal
  - Return due 15<sup>th</sup> day 3<sup>rd</sup> month
  - Graduated rates
    - 15%, 25%, 34%, 39%

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## C - Corporations (cont)

- Montana
  - License tax (form CLT-4)
  - Return due 15<sup>th</sup> day, 5<sup>th</sup> month
  - 6.75% of net income
  - Minimum \$50

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## C – Corporations (cont)

- Owner withdrawals
  - Salary
  - Dividends
  - Loans

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## S – Corporations

- C corporation with tax election
- Flow through entity – form 1120S
  - Net income taxed to s/h without regard to distributions taken
- Return due 15<sup>th</sup> day of 3<sup>rd</sup> month

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## S –Corporations (cont)

- Montana
  - Information return (CLT-4S) due same date as federal
  - Subject to flow-through entity rules with nonresident shareholder

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## Partnerships

- Flow through entity – form 1065
- Partners taxed on net income without regard to distributions taken
- Working partners can take guaranteed payments
- Return due 15<sup>th</sup> day of 4<sup>th</sup> month
- No personal liability protection

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## Partnerships (cont)

- Montana
  - PR-1 form due same date as federal
  - Subject to flow through entity rules with nonresident partners

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## Limited Liability Company (LLC)

- Federal default to a partnership or individual
  - Flow through entity
  - Partners taxed at their level
  - Return due 15<sup>th</sup> of 4<sup>th</sup> month
- Election to be taxed as a corporation
  - Tax paying entity- form 1120
  - Graduated rates
  - Return due 15<sup>th</sup> of 3<sup>rd</sup> month

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## Limited Liability Partnership (LLP)

- Flow through entity, i.e. income taxed to partners regardless of distributions
- Form 1065 due 15<sup>th</sup> day of 4<sup>th</sup> month
- Liability protection not available to regular partnerships

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## LLC – (cont)

- Montana - Tax treatment depends on Federal status
- Individual form 2
- Partnership – nonresident partners subject to flow through entity rules
- Corporation – pays tax according to license tax rules

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## LLP (cont)

- Montana
- Taxed as a partnership
- Non resident partners subject to flow through entity rules
- Form PR-1 with same due date as Federal

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## Disregarded Entity

- Established as an LLC
- Default provision
- One person ownership
- Activity reported on Federal Form 1040, schedules C, E or F
- Mt - Individual income tax form 2

## Entity Selection??

- Liability issues
- Type of business
- Business assets
- Business plan
- Current tax laws

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## Flow Through Entity Montana Requirements

- Applies to nonresident partners or shareholders
  - Written agreement to timely file, pay and subject to personal jurisdiction
  - Composite return with payment for participating members
  - Backup withholding for non-participating or non-agreeing members

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