

Understanding C Corporation Taxes

Corporate profit, owner income and decisions about growth

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Clear explanations. Comparable examples. Better questions.

For individual U.S. owners who want to understand business taxes alongside an outside job. Federal rules are the focus; state and local taxes require separate analysis.

Quick start

The corporation generally pays 21% on taxable profit. Owners may pay tax on wages and dividends. Consider whether the ownership, benefits and growth plan justify the combined costs.

Inside this resource

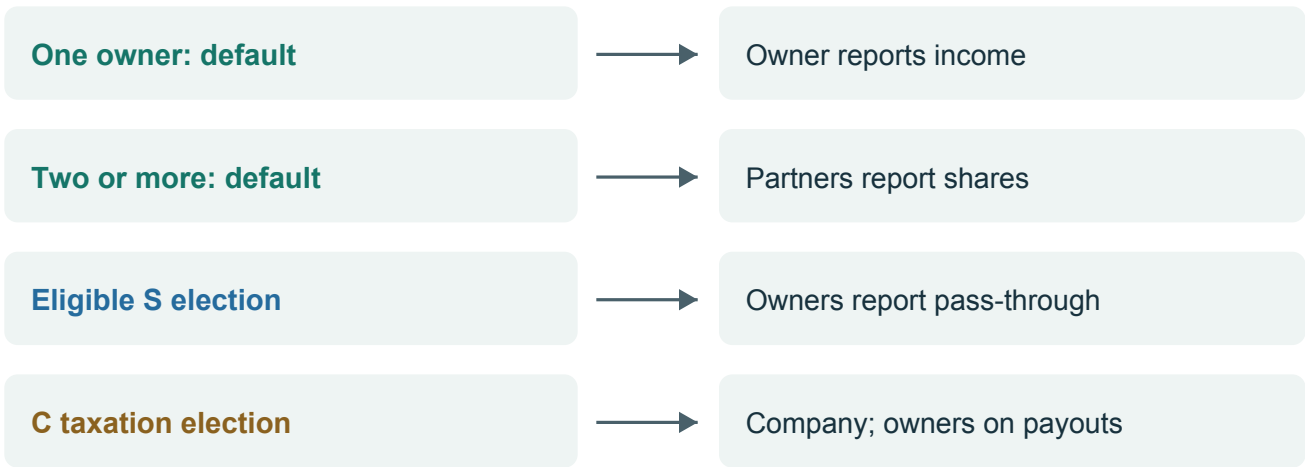
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Prepared by Chervil LLC. Educational material for business owners.

An LLC is a legal structure; taxation is a separate choice

A limited liability company (LLC) is created under state law. Federal tax classification tells the IRS how its income is reported. Think of the LLC as the business's legal identity and the tax classification as the reporting rules it follows. Liability protection has limits and does not replace insurance.

ONE LEGAL STRUCTURE. DIFFERENT TAX PATHS.



An LLC is formed under state law. Ownership and valid elections determine its federal income-tax treatment.

With one individual owner, the default is usually a disregarded entity: the IRS generally includes the activity on that owner's income-tax return. An operating business commonly uses Schedule C; rental or farming activities may use other schedules. With two or more owners, a domestic LLC normally uses partnership taxation unless an election changes that treatment. [\[IRS Publication 3402\]](#)

An eligible LLC can elect corporate taxation. S corporation status generally passes income to eligible owners; C corporation taxation generally makes the business a separate income-tax payer. Forming an LLC alone does not make an S election. [\[IRS Publication 3402\]](#)

Arrangement	Who normally pays federal income tax on profit?
Default single-member LLC	The individual owner.
Default partnership LLC	The partners on their allocated shares.
S corporation	The shareholders; special entity-level taxes can apply.
C corporation	The corporation; shareholders may also owe tax on dividends.

Pass-through means tax items move to the owners' returns. Keeping cash in a pass-through business usually does not postpone the owners' tax. A distribution is a payment to an owner; it is not automatically the amount of taxable profit. [\[IRS Publication 541\]](#) [\[IRS\]](#)

Tax brackets work in layers

Revenue is money the business brings in. Profit is revenue minus allowable business costs. Taxable income is the amount left for income-tax purposes after applicable deductions. The tables below apply to taxable ordinary income, not automatically to sales or gross pay. [\[Revenue Procedure 2025-32\]](#)

A marginal rate is the rate on the next dollar in a particular tax category. An effective rate is total tax divided by a clearly identified income amount. Always say which tax and which income you are comparing.

A \$60,000 TAXABLE-INCOME EXAMPLE

\$12,400 in the first layer	10%	\$1,240
\$38,000 in the next layer	12%	\$4,560
\$9,600 in the next layer	22%	\$2,112

Total ordinary income tax: \$7,912

Single filer, 2026. The 22% rate touches only the top \$9,600 in this illustration. Before credits and other taxes.

The illustration uses \$60,000 of taxable ordinary income for a single filer. Only the last \$9,600 falls in the 22% bracket. Tax is \$7,912, not 22% of the entire \$60,000. That is about 13.19% of this taxable-income amount, before other taxes or credits.

2026 rate	Single	Married filing jointly*
10%	\$0 to \$12,400	\$0 to \$24,800
12%	Over \$12,400 to \$50,400	Over \$24,800 to \$100,800
22%	Over \$50,400 to \$105,700	Over \$100,800 to \$211,400
24%	Over \$105,700 to \$201,775	Over \$211,400 to \$403,550
32%	Over \$201,775 to \$256,225	Over \$403,550 to \$512,450
35%	Over \$256,225 to \$640,600	Over \$512,450 to \$768,700
37%	Over \$640,600	Over \$768,700

2026 rate	Head of household	Married filing separately
10%	\$0 to \$17,700	\$0 to \$12,400
12%	Over \$17,700 to \$67,450	Over \$12,400 to \$50,400
22%	Over \$67,450 to \$105,700	Over \$50,400 to \$105,700
24%	Over \$105,700 to \$201,750	Over \$105,700 to \$201,775
32%	Over \$201,750 to \$256,200	Over \$201,775 to \$256,225
35%	Over \$256,200 to \$640,600	Over \$256,225 to \$384,350
37%	Over \$640,600	Over \$384,350

*Qualifying surviving spouses use the joint rate schedule. Filing status follows eligibility rules; it is not simply a choice of the best table. Basic 2026 standard deductions are \$16,100 single or married filing separately, \$32,200 joint, and \$24,150 head of household. Special rules can change the deduction. A deduction reduces income subject to tax; a credit reduces the tax itself, subject to its rules. [\[Revenue Procedure 2025-32\]](#)

Several different taxes can apply

Income tax and employment taxes do different jobs. FICA is the Social Security and Medicare tax system for employees and employers. Self-employment tax generally provides corresponding taxes for people working for themselves. Do not simply add a 24% income-tax bracket to 15.3% and apply the result to all revenue. [\[IRS Publication 15\]](#) [\[IRS Topic 554\]](#)

Tax	2026 rule and tax base
Employee Social Security	6.2% of covered wages up to \$184,500 per person.
Employer Social Security	6.2% on covered wages, generally with its own wage-base obligation for each unrelated employer.
Employee / employer Medicare	1.45% each on covered wages; no earnings cap.
Regular self-employment tax	12.4% Social Security plus 2.9% Medicare, generally on 92.35% of covered net profit. The Social Security portion is limited by the remaining wage base after covered wages.
Additional Medicare Tax	0.9% on applicable combined wages and self-employment earnings above the filing-status threshold. No employer matching amount.
Regular C corporation income tax	21% of corporate taxable income, not gross receipts.
Net Investment Income Tax (NIIT)	3.8% of the smaller of net investment income or excess modified adjusted gross income over the applicable threshold.

For Additional Medicare Tax and NIIT, the usual thresholds are \$200,000 for single or head of household, \$250,000 joint, and \$125,000 married filing separately. They tax different income categories. NIIT does not apply to wages. Modified adjusted gross income starts with income after certain adjustments, with modifications required for that tax. [\[IRS Topic 560\]](#) [\[IRS Topic 559\]](#)

A qualified dividend is a corporate dividend meeting special requirements, including relevant holding-period rules. Its federal rate is generally 0%, 15% or 20%. Ordinary taxable income uses up lower-rate space before qualified dividends are stacked on top. Nonqualified dividends generally use ordinary income-tax rates. [\[IRS Topic 404\]](#) [\[IRS Topic 409\]](#)

Filing status	0% through	15% through; 20% above
Single	\$49,450	\$545,500
Married filing jointly*	\$98,900	\$613,700
Head of household	\$66,200	\$579,600
Married filing separately	\$49,450	\$306,850

These 2026 dividend boundaries refer to total taxable income, including qualified dividends and net capital gain; they are not separate allowances for dividends. *Also qualifying surviving spouses. NIIT may be additional. [\[Revenue Procedure 2025-32\]](#)

Meet Mr. Xavier: a business owner with an outside job

Mr. Xavier, age 40 and single, earns \$50,000 at an unrelated employer. Form W-2 is the employer's annual statement of wages and taxes withheld. He also owns a small specialty-products business. After inventory costs and ordinary operating expenses, it earns \$100,000 before his own salary and related employer payroll taxes. This is profit, not sales.

He materially participates, meaning he is sufficiently involved under the tax participation rules. He is the only owner, has no dependents or other income, takes the \$16,100 standard deduction, and has no credits, retirement contributions or health-insurance deductions in this model. His outside wages are fully subject to Social Security and Medicare.

For this corporate example, assume \$60,000 is supportable compensation for his actual work after reviewing hours, duties, comparable pay and the role of employees and capital. That is a modeling assumption, not an IRS safe harbor. His part-time schedule alone does not establish a reasonable salary.

[\[IRS\]](#)

We include federal ordinary income tax, qualified-dividend tax, regular Social Security and Medicare taxes, and regular corporate income tax where applicable. We exclude state/local taxes, unemployment taxes, extra payroll/accounting fees and special industry taxes. Those costs must be added before a real decision.

Assume full eligibility for the qualified business income (QBI) deduction where shown. This can deduct up to 20% of eligible pass-through business income, subject to limits. Employee wages and C corporation operating income do not qualify. The deduction reduces income tax, not self-employment tax. [\[IRS\]](#)

We use rate-schedule mathematics without intermediate rounding. Filed-return tax tables and whole-dollar rounding may give slightly different results. There is no Additional Medicare Tax or NIIT under these facts. With only his \$50,000 job, taxable income would be \$33,900 and ordinary income tax about \$3,820. His own outside-job FICA is \$3,825. This \$7,645 baseline is constant across the alternatives.

Xavier uses C corporation taxation

Use the same \$60,000 salary and \$4,590 employer FICA. The corporation has \$35,410 of taxable profit after those deductions. Unlike an S corporation, it generally pays its own income tax. Xavier pays personal tax on his wages and on any taxable dividend he receives. [\[IRS Publication 542\]](#)

Step	Calculation / result
Corporate income tax	$\$35,410 \times 21\% = \$7,436.10$
After-tax corporate profit	$\$35,410 - \$7,436.10 = \$27,973.90$
Personal taxable ordinary income	$\$50,000 + \$60,000 - \$16,100 = \$93,900$
Personal ordinary income tax	$\$5,800 + 22\% \times \$43,500 = \$15,370$
Qualified dividend if all profit paid out	$\$27,973.90$; assume qualification requirements met
Dividend tax	$\$27,973.90 \times 15\% = \$4,196.09$
Business-related employer + employee FICA	$\$4,590 + \$4,590 = \$9,180$
Additional federal tax from the business	$\$15,370 + \$4,196.09 - \$3,820 + \$9,180 + \$7,436.10 = \$32,362.19$

All the dividend falls in the 15% band because ordinary taxable income already exceeds the single 0% boundary, and total taxable income remains below the 20% boundary. Corporate dividends are not deductible by the corporation. The QBI deduction does not apply to this corporate profit or to the owner's wages. [\[IRS Topic 404\]](#) [\[Revenue Procedure 2025-32\]](#) [\[IRS\]](#)

If all remaining profit is distributed, combined modeled tax is \$40,007.19, including outside-job FICA. Personal after-tax cash is about \$109,992.82. Calculations use unrounded values; displayed rounded amounts may differ by a cent when added.

What if he keeps the profit in the company?

Without a current dividend, modeled tax is \$35,811.10, of which \$28,166.10 is additional to his W-2-only baseline. The corporation retains \$27,973.90; Xavier has \$86,215 personally after the included taxes on wages. The combined \$114,188.90 is split between two taxpayers. A later dividend can add tax, so this is not comparable to receiving all the money now.

Retaining cash for a documented business need can postpone shareholder dividend tax. It does not cancel corporate income tax, and unreasonable accumulation to avoid shareholder tax can trigger an additional tax. [\[IRS Publication 542\]](#)

When C corporation treatment may help

A company seeking outside equity investors or multiple stock classes may find C corporation ownership more suitable than S status. The decision should connect financing needs with tax costs. More complicated ownership is not itself a tax saving. [\[IRS\]](#) [\[IRS Publication 542\]](#)

A growing business may reinvest after-tax earnings in staff, equipment, inventory or expansion. Deferring a dividend can leave capital in the business, but that capital belongs to the corporation. Include the eventual cost of taking it out. [\[IRS Publication 542\]](#)

Qualifying employee health and other fringe benefits may be attractive when the applicable plan and nondiscrimination rules are met. A fringe benefit is a benefit supplied in addition to cash wages. Paying an owner's personal bills does not automatically create a tax-free benefit. [\[IRS Publication 15-B\]](#)

Certain stock sales may qualify for the qualified small business stock (QSBS) exclusion under Section 1202. For qualifying stock acquired after July 4, 2025, potential exclusions are 50% after three years, 75% after four, and 100% after five or more. Issuance, asset-size, business-activity, holding-period and gain limits apply. Many service businesses, including accounting, law and consulting, are excluded. Earlier stock has different rules. This concerns qualifying stock-sale gain, not everyday profits or a corporate asset sale. [\[26 USC 1202\]](#)

C corporation treatment can support a business plan even when it is not the cheapest way to withdraw this year's profit. Assess the financing, benefits, ownership and eventual exit together.

Corporate operating losses generally remain with the company rather than offsetting the owner's outside wages. Dividends can create a second tax layer. Selling appreciated assets and then distributing the proceeds can also be costly. [\[IRS Publication 542\]](#) [\[26 USC 311\]](#)

Your other paycheck can change the answer

An outside job usually fills some lower income-tax brackets before business income is added. It can also affect QBI limitations and other deductions. Withholding is money sent to the IRS in advance; it is not the final tax rate. [\[IRS Publication 505\]](#) [\[IRS\]](#)

Now imagine \$190,000 of covered outside wages instead of \$50,000. Those wages already exceed the 2026 Social Security base. A default LLC owner generally has no remaining Social Security self-employment-tax base, although Medicare and possibly Additional Medicare Tax remain. [\[IRS Topic 554\]](#) [\[Social Security\]](#) [\[IRS Topic 560\]](#)

An S or C corporation paying the owner wages generally still owes its own employer Social Security tax. Unrelated employers normally withhold independently. The owner can generally claim a credit for excess employee Social Security from multiple employers; that does not ordinarily refund the corporation's employer share. Special common-paymaster or successor rules need separate review. [\[IRS Publication 15\]](#) [\[IRS Topic 608\]](#)

Two partners, equal profit, different tax

Consider a separate partnership LLC owned equally by Ana and Ben. Each receives \$40,000 of business profit assumed fully subject to self-employment tax. Both are single, active owners. Ana has \$100,000 of outside covered wages; Ben has \$190,000. Their individual employment-tax results differ:

On each \$40,000 profit share	Ana	Ben
Regular self-employment tax	\$5,651.82	\$1,071.26
Additional Medicare Tax caused by LLC earnings	\$0	\$242.46

Both use \$36,940 of self-employment earnings. Ana pays 15.3% on that amount. Ben has no remaining Social Security base, so pays 2.9% Medicare, plus 0.9% on \$26,940 above his \$200,000 combined threshold. Ordinary income tax is additional and depends on each return. LLC member self-employment treatment can be fact-sensitive; these shares are expressly assumed covered. [\[IRS Publication 541\]](#) [\[IRS Topic 554\]](#) [\[IRS Topic 560\]](#)

Corporate payments, losses and the eventual exit

A C corporation generally files Form 1120. Owner salary may be deductible if reasonable and paid for actual services; dividends generally are not. A real loan has repayment terms and proper records. Calling a withdrawal a loan after the fact does not establish one. [\[IRS Publication 542\]](#)

A corporate operating loss normally stays with the company under corporate loss rules. A later shareholder stock loss is a different event with its own requirements. Do not assume a business loss will reduce outside W-2 income just because the employee owns the company. [\[IRS Publication 542\]](#)

Keep records of payroll, assets, shareholder loans, stock ownership, distributions and earnings and profits. Earnings and profits is a corporate tax measure used to help classify distributions; it is not necessarily the checking-account balance or bookkeeping profit. [\[IRS Publication 542\]](#)

Plan whether an eventual buyer is likely to purchase shares or assets. An asset sale followed by a payout can create tax at both levels. A stock sale has different rules and may, if all conditions are met, qualify for Section 1202 treatment. Moving away from C taxation also needs an analysis of transition costs. [\[IRS Publication 542\]](#) [\[26 USC 1202\]](#)

A business name does not turn personal use into a deduction

START WITH USE, THEN APPLY THE TAX RULES

A company name on the title does not establish a deduction.

DOCUMENTED BUSINESS USE

Check eligibility, limits and records.

Example: 12,000 of 20,000 miles = 60%

PERSONAL USE

Exclude it or report the benefit.

The other 8,000 miles = 40%

Car, home office, rental or commercial building?

Different assets follow different deduction, depreciation and sale rules.

Illustrative mileage split, not a universal allocation. Corporate personal use can create taxable compensation or a distribution.

Suppose Xavier drives 20,000 miles, of which 12,000 are documented qualifying business miles. Business use is 60%. Under an eligible actual-cost method, \$10,000 of qualifying mixed-use running costs would generally support a \$6,000 business allocation. The personal 40% is not a business deduction. Vehicle purchase cost, interest and depreciation require their own rules. [\[IRS Topic 510\]](#)

An eligible taxpayer may instead use the standard mileage method. Keep a dated business-mileage log and total miles; do not deduct the same costs again under both methods. Ordinary travel from home to a regular workplace is generally personal commuting. A qualifying principal home office can change some trip classifications. [\[IRS Topic 510\]](#) [\[IRS Publication 463\]](#)

If an S or C corporation owns a car, personal use generally creates a taxable employee benefit or another owner-level consequence. Alternatively, the owner may use a personal car and receive substantiated reimbursement under an accountable plan: a business reimbursement arrangement requiring a business connection, timely evidence and return of excess advances. [\[IRS Publication 15-B\]](#) [\[IRS Publication 463\]](#)

Depreciation means recovering an asset's cost through tax deductions, sometimes over years and sometimes faster under special rules. A loan payment is not automatically deductible: principal pays for the asset, while allowable interest and cost recovery are separate. A large vehicle write-off depends on classification, business use, timing and deduction limits. A later sale or drop in business use may produce taxable recapture, meaning earlier deductions are partly brought back into income. [\[IRS Publication 946\]](#)

A \$6,000 deduction does not mean a \$6,000 refund. At a 24% income-tax margin, its isolated income-tax effect would be \$1,440 before interactions. At the regular 21% corporate rate, it would be \$1,260. QBI, employment taxes and other limits can change the full result.

A home, an office and a rental are different situations

Your personal residence

Moving a personal home into an LLC does not make household costs business expenses. A wholly owned disregarded LLC can preserve individual treatment for the home-sale exclusion when the relevant requirements are met. Corporate ownership ordinarily does not preserve the same personal exclusion. Financing, title, insurance and state-law consequences also need review. [\[Treasury Regulation 1.121-1\]](#) [\[IRS Publication 523\]](#)

A qualifying home office

A self-employed owner generally needs regular, exclusive qualifying business use, subject to specific exceptions. A desk occasionally used at the family dining table usually does not satisfy exclusive use. Under the simplified method, an eligible 200-square-foot office can produce a \$1,000 deduction at \$5 per square foot, subject to the applicable limit and rules. This does not make the entire mortgage deductible. [\[IRS Publication 587\]](#) [\[IRS\]](#)

A shareholder-employee may instead evaluate corporate reimbursement of qualifying actual home-office costs through an accountable arrangement. Do not simply use the self-employed simplified deduction as a corporate reimbursement formula. [\[IRS Publication 463\]](#) [\[IRS Publication 587\]](#)

Rental or commercial property

Income-producing property can have deductible operating costs and depreciation. Land is not depreciable. A \$300,000 residential rental with \$60,000 allocated to land leaves \$240,000 for the building; a full-year straight-line amount over 27.5 years is about \$8,727. First and final years follow convention rules. Commercial buildings normally use a different recovery period. Rental losses may be limited even when the owner has a W-2 job. [\[IRS Publication 527\]](#) [\[IRS Publication 925\]](#)

Think about the exit before transferring real estate. A corporation distributing a building worth \$500,000 with a \$250,000 adjusted basis can recognize \$250,000 of gain even without selling it to an outsider. In a C corporation, shareholder-level tax may also follow; in an S corporation, the gain normally passes through and affects basis. [\[26 USC 311\]](#) [\[IRS\]](#)

Turn the comparison into a useful conversation

Bring your filing status, outside pay statements, expected business revenue and expenses, ownership details, work duties, desired cash withdrawals, benefits, asset records and growth plans. Ask for the owner and business returns to be modeled together.

Bring this	Why it matters
Outside W-2 wages and withholding	Income brackets, employment taxes and payments already made.
Profit forecast, not just sales	The amount available before owner pay and tax.
Owner duties and hours	Support for reasonable corporate compensation.
Current tax election and ownership records	Which reporting rules actually apply.
Vehicle logs and property records	Business-use evidence, basis and future sale effects.
Cash needs and investor plans	Whether retaining profit or corporate ownership fits.

Estimated tax is a pay-as-you-go payment toward the final bill. Additional W-2 withholding may help cover tax on a side business; quarterly estimates may be appropriate. A larger payment reduces the balance due, not necessarily the underlying tax. Corporations have separate payment rules. [\[IRS Publication 505\]](#) [\[IRS Publication 542\]](#)

General federal education for individual U.S. owners; this is not a personal recommendation, a complete return calculation or a promise of savings. State and local taxes require a separate review. Rates, elections and results must be checked for the taxpayer and year involved.

Quick glossary

Term	Plain-language meaning
Adjusted gross income (AGI)	Income after certain adjustments, before the standard or itemized deduction.
Basis	A tax tracking amount, often starting with cost or investment and changing with later events.
Capitalization	Recording a cost as part of an asset rather than deducting it immediately.
Deduction / credit	A deduction reduces taxable income; a usable credit reduces tax.
Distribution / dividend	A distribution pays an owner. A dividend is a particular kind of corporate distribution with its own tax rules.
Effective / marginal rate	An average tax percentage on a stated base / the rate on the next relevant dollar.
FICA / self-employment tax	Social Security and Medicare taxes for employment / corresponding taxes on covered self-employment income.
Pass-through / K-1	Income reported by owners / the schedule showing an owner's allocated tax items.
QBI	Qualified business income: eligible business income used for a potentially available deduction.
Reasonable compensation	Pay supportable for the services actually performed.
Recapture	Rules that can bring earlier tax benefits back into taxable income.
Withholding / estimated tax	Advance payments toward a final tax bill, not separate deductions.

Your preparation worksheet

Use this page privately before a professional review. Estimates are useful starting points; bring supporting records through an agreed secure method.

Question	Your notes
What do you expect in outside wages and withholding?	_____
What is projected business profit before owner pay?	_____
Who owns the business, and what election is in effect?	_____
What work does each owner perform?	_____
How much cash do you need personally this year?	_____
What assets, benefits or investor plans need review?	_____

Chat with Chervil LLC

Bring your questions, expected profit and ownership plans. We can help identify the records and tax issues that need a closer review.

Start a conversation

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Scan the QR code or use the contact link. Please do not send W-2s, Social Security numbers, tax returns or banking details through a public form or ordinary email. Arrange a suitable document-exchange method first.

Sources and scope

Official sources were reviewed for this 2026 edition. Older publication editions are used for continuing rules; annual amounts and legislative changes use the applicable current authority. Follow the links to check the rules for the actual return year. This resource is not a substitute for a complete client-specific calculation.

IRS Publication 3402: Taxation of LLCs	26 USC 1202: Qualified small business stock
IRS Publication 541: Partnerships	26 USC 311: Gain on corporate property distributions
IRS: S corporations	IRS Publication 505: Withholding and estimated tax
Revenue Procedure 2025-32: 2026 tax adjustments	IRS Topic 608: Excess Social Security withholding
IRS Publication 15: 2026 employer tax guide	IRS Topic 510: Business use of car
IRS Topic 554: Self-employment tax	IRS Publication 463: Travel, gifts, cars and reimbursements
Social Security: 2026 contribution and benefit base	IRS Publication 946: Depreciation
IRS Topic 560: Additional Medicare Tax	Treasury Regulation 1.121-1: Principal-residence exclusion
IRS Topic 559: Net Investment Income Tax	IRS Publication 523: Selling your home
IRS Publication 542: Corporations	IRS Publication 587: Business use of your home
IRS Topic 404: Dividends and distributions	IRS: Simplified home-office deduction
IRS Topic 409: Capital gains and losses	IRS Publication 527: Residential rental property
IRS: S corporation compensation and health insurance	IRS Publication 925: Passive activity and at-risk rules
IRS: Qualified business income deduction	IRS: S corporation stock and debt basis
IRS Publication 15-B: 2026 fringe benefits	