

Construction Accounting and Financial Management

Chapter 13
Projecting Income Tax

Corporate Income Tax

- Pays tax at:
 - Corporate level and
 - Personal level on dividends
- Paid by:
 - C corporations
 - Some partnerships

Personal Income Tax

- Income tax passes through the company to the individual
- Paid by:
 - Sole proprietorships
 - Some partnerships
 - S corporations
 - Limited liability companies

Taxable Income

- Taxable Income = Income – Tax Deductions
- Not all cost are tax deductible
 - Only 50% of meals and entertainment are tax deductible
 - Limits on charitable donations
 - Passive losses cannot offset non-passive gains
- Unused (unallowed) losses may be carried forward

Payments of Income Tax

- Payment of income taxes is due quarterly

Corporate Income Tax Rates

Corporate Federal Income Tax Rates for the Year 2006

Taxable Income (\$)		Tax is (\$):	Of the amount over
Over	But Not Over		
0	50,000	15%	0
50,000	75,000	7,500 + 25%	50,000
75,000	100,000	13,750 + 34%	75,000
100,000	335,000	22,250 + 39%	100,000
335,000	10,000,000	113,900 + 34%	335,000
10,000,000	15,000,000	3,400,000 + 35%	10,000,000
15,000,000	18,333,333	5,150,000 + 38%	15,000,000
18,333,333		35%	

IRS, *Corporations*, Publication 542, 2006, p. 17

Personal Income Tax Rates—Single

Personal Income Tax Rates for a Single Person for the Year 2007

Taxable Income (\$)		Tax is (\$):	Of the amount over
Over	But Not Over		
0	7,825	10%	0
7,825	31,850	782.50 + 15%	7,825
31,850	77,100	4,386.25 + 25%	31,850
77,100	160,850	15,698.75 + 28%	77,100
160,850	349,700	39,148.75 + 33%	160,850
349,700		101,469.25 + 35%	349,700

IRS, *Tax Withholding and Estimated Tax*, Publication 505, 2007, p.41

Personal Income Tax Rate—Married

Personal Income Tax Rates for a Married Persons Filing Jointly for the Year 2007

Taxable Income (\$)		Tax is (\$):	Of the amount over
Over	But Not Over		
0	15,650	10%	0
15,650	63,700	1,565.00 + 15%	15,650
63,700	128,500	8,772.50 + 25%	63,700
128,500	195,850	24,972.50 + 28%	128,500
195,850	349,700	43,830.50 + 33%	195,850
349,700		94,601.00 + 35%	349,700

IRS, *Tax Withholding and Estimated Tax*, Publication 505, 2007, p.41

Marginal or Incremental Tax Rate

- Tax rate paid on last dollar of income

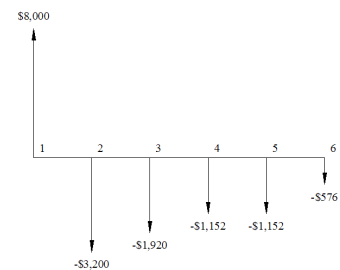
Capital Gains or Losses

- Gain or loss on the sale of capital assets
- May be taxed at a different rate than standard income

Tax Consequences of Depreciation

- Spreads tax savings out over more years

Difference Between Cash Flow and Deductibility of Depreciation



Tax Credits

- Reduce taxes not taxable income
- Cannot be used to reduce both taxable income and taxes

Alternate Minimum Tax

- Alternate method of calculating income tax for those who have a lot of tax deductions
- Renders some deductions useless

Projecting Income Tax

- Use when projecting cash flow for the company
- Companies who pass their income tax through to their investors need to disburse cash so their investors can pay the income tax