

Types of business entities and legal characteristics of proprietorships and partn...

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Avoiding double taxation affiliation Avoiding double taxation Double taxation is one issue owners of corporations have to deal with. Double taxation means that an organization pays taxes as company and also pay taxes as the profits of the company are transferred to shareholders. Unfortunately, corporations cannot evade the double taxation policies unless they want to operate on an illegal basis. In running a proprietorship corporation, it is possible to evade double taxation and be legally acceptable (Murphy & Higgins, 2011). This is made possible by the fact that this type of organization is jointly owned by family members. For this reason, it becomes logic and less involving in coming up with other options of sharing profits apart from the dividends. One way used to evade double taxation is by putting all family members on a salary. The salary paid to employees is taxed at the corporation level. However, this is only legal if all shareholders have a well defined job description. If there is any form of over payment or illogical rewarding of salaries, the process may be termed to be illegal (Murphy & Higgins, 2011). In another way, the family members can restrict themselves from taking dividends and borrow money instead. If a shareholder borrows money from a company, the amount is not taxable and in all interest generated from the lease are directed in the company. According to Murphy & Higgins (2011) leasing of assets by the family to the company is also a legal way of evading double taxation. In this scenario, the family members will greatly rely on the compensation rates paid to leased assets. In other cases, the leasing of assets also involves easing of human resources. In the leasing process, the profits stay in the company and the family members have the right to acquire the benefits paid from their leased

assets (Murphy & Higgins, 2011).

Reference

Murphy, K. & Higgins, M. (2011). Concepts in Federal Taxation 2012, Professional Version. New York: Cengage Learning.