BUSINESS FORMS IN TEXAS

Generally, businesses are created and operated in one of the following forms:

Sole proprietorship: The sole proprietorship is the most common and the simplest form of business.

- In a sole proprietorship, a single individual engages in a business activity without necessity of formal organization.
- If the business is operated under an assumed name (other than the individual's name), then an assumed name certificate (commonly known as a DBA) should be filed with the county clerk in the county where a business premise is maintained.
- If there is no maintained business premise, then a DBA should be filed in all counties where business is conducted under the assumed name.

General partnership: A general partnership is created when two or more persons associate to carry on a business for profit.

- A partnership should operate according to a partnership agreement, but there is no requirement to file one with the state or that it be in writing.
- If the business is operated under an assumed name (other than the names of the partners), then an assumed name certificate (commonly known as a DBA) should be filed with the county clerk in the county where a business premise is maintained.
- If there is no maintained business premise, then a DBA should be filed in all counties where business is conducted under the assumed name.

Limited Partnership: A limited partnership is a partnership formed by two or more persons and having at least one general partner and one limited partner.

- At least one partner(s) will have general liability while the other partner(s) will have liability limited to their investment in the partnership.
- The limited partnership should operate in accordance with a partnership agreement, whether written or oral; the partnership agreement is not filed for public record,
- The limited partnership must file a certificate of formation with the Texas Secretary of State.
- Cost: $750

Limited Liability Partnership: A general or limited partnership can register as a limited liability partnership to limit the liability of its general partners.

- The creation of a limited liability partnership requires the filing of a certificate of formation with the Secretary of State. The partnership must already be in existence and have a filing with the SOS
- In a limited liability partnership, a general partner's liability changes; generally, a partner in a limited liability partnership is not individually liable for any obligation of the partnership incurred.
- Cost: $200 per registered partner

Corporation: A Texas corporation is created by filing a certificate of formation with the Texas Secretary of State.

- A corporation is a legal entity with the characteristics of limited liability, centralization of management, perpetual duration, and ease of transferability of ownership interests.
- The owners of a corporation are called "shareholders."
- The persons who manage the business and affairs of a corporation are called "directors."
- However, state corporate law does provide for shareholders to enter into shareholders' agreements to eliminate the directors and provide for shareholder management.
- Choosing the best management structure for your corporation is a decision you make with the advice of an attorney.
- Cost: $300

    - An “S” corporation is not a matter of state corporate law but rather a federal tax election. A for-profit corporation elects to be taxed as an “S” corporation by filing an election with the Internal Revenue Service.

Limited Liability Company: A Texas limited liability company is created by filing a certificate of formation with the Texas Secretary of State.

- The limited liability company (LLC) is a distinct type of entity that has the powers of both a corporation and a partnership.
- Depending on an LLC’s structure, it can be equated to a general partnership with limited liability, a limited partnership where all owners can participate in management and have limited liability, or to an “S” corporation without ownership and tax restrictions under the Internal Revenue Code.
- Unlike the partnership, where the key element is the individual, the essence of the limited liability company is the entity, requiring for its creation more formal requirements.
- LLC owners are called members
    - A member can be an individual, partnership, corporation, trust, and any other legal or commercial entity.
    - Generally, members’ liability is limited to their investment while possessing the pass-through tax treatment afforded to partnerships.
- A limited liability company can be member managed or manager managed.
    - The certificate of formation must state the management structure.
    - A member is an owner of the LLC; can be compared to a corporation.
    - A manager is a person chosen by the members to manage the LLC and is similar to a director of a corporation.
        - A manager can also be a member.
- Cost: $300

https://www.sos.state.tx.us/corp/businessstructure.shtml

SETTING UP AND OPERATING A BUSINESS

PARTNERSHIPS

1. Decide if this will be a general, limited or limited liability partnership; decide on a unique name if having to file with the Secretary of State. Make sure the name isn't already taken by searching the Texas Secretary of State database online
2. Meet with your partner(s) to discuss every detail of the proposed partnership and outline terms while defining each partner's role in the company.
3. Create an official partnership agreement with the other partner(s).
4. Secure an Employer Identification Number for the new business and register the partnership with the Texas Secretary of State if required; pay all required fees if any.
5. Open a joint business bank account for partners to access and to conduct the business of the partnership. Discuss account details, such as a requirement to have the signature of all partners on large withdrawals or checks.

LLC

1. Decide on a name for your LLC.
    a. Your entity name must contain the words Limited Liability Company or the abbreviation L.L.C. or LLC. Make sure the name isn't already taken by searching the Texas Secretary of State database online

2. Choose a registered agent
    a. This is a party that agrees to send and receive legal papers on behalf of your LLC (must be a resident of Texas or a Company authorized to transact business in Texas)
3. File the certificate of formation with the Secretary of State online or by mail and pay the required fee; the certificate must include
    a. Name that meets state requirements and its registered address
    b. Registered agent's name and address
    c. Signed consent form of the registered agent
    d. Stating whether the LLC will be member-managed or manager-managed
    e. The names and addresses of the organizers of the Certificate of Formation
    f. The LLC's formation purpose
    g. Termination date if desired
    h. Members or managers' names, addresses and initials
    i. Fee payment
4. Create an operating agreement
    a. An operating agreement is not required in Texas, but is recommended
5. Obtain an Employer Identification Number
    a. The employer identification number (EIN), or federal tax identification number, is used to identify a business entity; can be obtained online or by mail from the IRS
    b. An EIN is required when filing state and federal taxes; banks may require an EIN to open a business checking account.
6. Apply for Texas Ag & Timber Registration Number

<u>CORPORATION</u>

1. Decide on a name for your corporation
    a. It must contain one of these words or their abbreviation: "company," "corporation," "incorporated" or "limited," and be unique; make sure the name isn't already taken by searching the Texas Secretary of State database online
2. File a certificate of formation which must contain the following:
    a. Name of the corporation
    b. Names and addresses of organizers
        i. An organizer, sometimes called an incorporator, is the person who files the incorporation documents.
    c. Names and addresses of directors
        i. Corporate directors are responsible for managing the business and affairs of the corporation and exercising corporate powers.
        ii. There must be at least one director
    d. Registered agent and registered office
        i. A registered agent is a person or entity that receives legal documents on behalf of the corporation and a registered office is a place where the agent can receive these documents.
        ii. A registered agent may be an individual who is a Texas resident or a company authorized to do business in Texas who has a business office at the same address as the corporation; a corporation cannot act as its own agent.
    e. Stock structure
        i. The total number of shares initially authorized to be issued must be stated and whether or not they have par value (par value shares cannot be sold for less than a stated value; shares without can be sold for an amount set by the board of directors)
        ii. If the shares will be separated into classes, the designation for each class, the number of shares in each class, the par value (or state that there is no par value) and the preferences, limitations and relative rights of each class must be stated.

    f. Duration of the corporation, if not perpetual
    g. Corporate purpose
        i. Texas allows for the general statement "The purpose for which the corporation is formed is for the transaction of any and all lawful business for which a for-profit corporation may be organized under the Texas Business Organizations Code."
3. Set the bylaws the of the corporation
    a. These establish operating rules and procedures that the corporation will follow. Bylaws do not have to be filed with the Secretary of State
    b. The initial directors must meet to adopt bylaws during the first meeting of the directors after the certificate of formation is filed
    c. Bylaws cannot include anything that is inconsistent with Texas law or the certificate of formation.
4. Obtain an Employer Identification Number
    a. The employer identification number (EIN), or federal tax identification number, is used to identify a business entity; can be obtained online or by mail from the IRS
    b. An EIN is required when filing state and federal taxes; banks may require an EIN to open a business checking account.
5. Apply for Texas Ag & Timber Registration Number

OPERATING AGREEMENTS

Operating Agreements should cover the basic areas of business and address common concerns that can happen in a day-to-day course of business. The areas of death, divorce, disability, and disgust (where someone just wants out) should also be addressed in the case that they arise.

- Identifying Info - The entity's name and the addresses of the initial registered office and principal business office.
- Statement of Intent – States that the agreement is in accordance with the laws of TX, and that the business will come into existence once the official documents have been filed.
- Business Purpose – Describes the purpose and nature of the business
- Term – states the perpetuity or fixed term of the business
- Tax Treatment
- Admission of New Members - how someone may acquire an interest in the business
- Identification of Members and Managers. The names, addresses, and titles of the initial members (and managers, if any).
- Capital Contributions. List the initial capital contributions and values of each business owner or member
- Additional Capital Contributions – Provisions that can be made for the adjustment of each member's percentage of interest in the business if additional capital is contributed
- Distribution of Profits and Losses
- Member Meetings and Voting
- Management
- Duties and Compensation
- Admission and Withdrawal of Members or Partners - how new members or partners may be admitted, what happens if a member or partner wishes to withdraw
- Transfer of Interest
- Death or Divorce of a Member or Partner
- Dissolution - conditions and procedures for dissolving the business association

TAXES

State Taxes

Texas requires certain business associations to pay a franchise tax annually

ANNUAL REPORT https://comptroller.texas.gov/taxes/franchise/

2018 and 2019

Item	Amount
No Tax Due Threshold	$1,130,000
Tax Rate (retail or wholesale)	0.375%
Tax Rate (other than retail or wholesale)	0.75%
Compensation Deduction Limit	$370,000
EZ Computation Total Revenue Threshold	$20 million
EZ Computation Rate	0.331%

Entities Subject to Franchise Tax
Each taxable entity formed in Texas or doing business in Texas must file and pay franchise tax. These entities include:

- corporations;
- limited liability companies (LLCs), including series LLCs;
- S corporations;
- professional corporations;
- partnerships (general, limited and limited liability);

Entities Not Subject to Franchise Tax
The following entities do not file or pay franchise tax:

- sole proprietorships (except for single member LLCs);
- general partnerships when direct ownership is composed entirely of natural persons (except for limited liability partnerships);

Calculation of the Tax Margin
Franchise tax is based on a taxable entity's margin. Unless a taxable entity qualifies and chooses to file using the EZ computation, the tax base is the taxable entity's margin and is computed in one of the following ways:

- total revenue times 70 percent;
- total revenue minus cost of goods sold (COGS);
- total revenue minus compensation; or
- total revenue minus $1 million (effective Jan. 1, 2014).

Total Revenue
Total revenue is determined from revenue amounts reported for federal income tax minus statutory exclusions. Exclusions from revenue include the following:

- dividends and interest from federal obligations;
- Schedule C dividends;
- foreign royalties and dividends under Internal Revenue Code Section 78 and Sections 951-964;
- certain flow-through funds; and
- other industry-specific exclusions.

Tax Calculation: LLCs with annualized revenue below $1,110,000 do not pay any tax, but must file a "no tax due report." LLCs with annualized revenue greater than $1,100,000 pay a graduated tax that is calculated based on a complex formula.

Due Date: Due by May 15 each year. Reports do not need to be filed in the same year that an LLC is formed. If your LLC was formed in March 2018, then your first report is due on May 15, 2019. These filings must be made annually to keep your business in good standing with the State of Texas even if no tax is due.

Late Filings: Texas charges a $50 penalty for failure to file on time (whether or not you have tax due). Additionally, a late tax payment is subject to a 5% penalty fee, which increases to 10% if you pay after 30 days.

https://comptroller.texas.gov/taxes/publications/98-806.php

Federal Taxes

For tax purposes, the IRS classifies businesses as sole proprietorships, partnerships, C corporations, or S corporations.

- Sole proprietorship – the basic form of reporting taxes on a personal income tax return
- Partnerships – partnership income is divided amongst partners and reported on the personal income tax return
- Subchapter S (S Corporation) is a tax election that allows a corporation can pass income directly to shareholders and avoid the double taxation.
    - Requirements include being a domestic corporation, not having more than 100 shareholders, including only eligible shareholders and having only one class of stock.
    - Corporations filed under Subchapter S may pass business income, losses, deductions and credits to shareholders. Shareholders report such income and losses on their personal tax returns and pay tax at individual income tax rates.
- Subchapter C (C Corporation) is a tax election where a corporation's income is subject to the corporation tax; this net income is also distributed to shareholders in the form of dividends. These dividends are then classified as income to the shareholder and are reported on the individual's tax return. Therefore, profits from a C corporation are taxed at the corporation's tax rate and individual's tax rate (known as double taxation)

If you have formed an LLC or Corporation, the election as an S-Corp tax entity can determine the amount of Medicare and Social Security taxes that are paid on income—also known as self-employment taxes.

- An LLC member can be considered an employee of the business and must be paid a reasonable salary. The LLC will report the salary as a business expense, and the owner will report both the salary and any remaining business profit on their personal tax return. If elected as a sole proprietor, self-employment taxes must be paid on all income.
- A S-corporation election allows for self-employment taxes to be paid only on the reasonable salary that reported. Remaining profits are only taxed at regular income rates.

If you are liable for:	Then use Form:	Due by:
Income tax	1040 and Schedule C or C-EZ	15th day of 4th month after end of tax year.
Self-employment tax	Schedule SE	File with Form 1040
Estimated tax	1040-ES	15th day of 4th, 6th, and 9th months of tax year, and 15th day of 1st month after the end of tax year.
Social Security and Medicare taxes and income tax withholding	941 or 944 (*e-file*) 943 (Agriculture Taxes)	April 30th, July 31, October 31, and January 31. See Publication 225 See Publication 15
Providing information on social security and Medicare taxes and income tax withholding	W-2 (to employee) W-2 and W-3 (to the Social Security Administration)	January 31 Last day of February (March 31 if filing electronically).
Federal Unemployment (FUTA) tax	940 (*e-file*)	January 31. April 30, July 31, October 31, and January 31, but only if the liability for unpaid tax is more than $500.00
Filing information returns for payments to nonemployees and transactions with other persons	See Information Returns	Forms 1099-to the recipient by January 31 and to the IRS by February 28 (March 31 if filing electronically). Other forms - See the General Instructions for Forms 1099, 1098, 5498, and W-2G.
Excise tax	See Excise Taxes	See the instructions to the form.
Partnership taxes	1065	For tax years beginning after 2015, the due date for a domestic partnership to file its Form 1065 has changed to the 15th day of the 3rd month following the date its tax year ended. Provide each partner with Sch K-1 (Form 1065). Also, see Partnerships.
S-Corporation taxes	1120-S 1120-W (Estimated Taxes - Corporations Only)	For tax years beginning after 2015, the due date for filing corporate returns generally is the 15th day of the 4th month after the end of the corporation's tax year. Special rules apply to corporations with tax years ending in June. See the form's instructions for more details.
Corporate taxes	1120	15th day of the third month after the end of the tax year for most Form 1120 corporation returns (except Form 1120-C filers who meet the requirements of section 6072(d) and Form 1120-IC-DISC) with tax years beginning before January 1, 2016. For taxable years beginning after December 31, 2015, the Form 1120 family of returns (except Form 1120-C, Form 1120S, and Form 1120-IC-DISC) is due on or before the 15th day of the fourth month following the close of the C corporation's tax year, with one exception as follows. The income tax return of a C corporation that ends its tax year on June 30 remains due on or before the 15th day of the third month following the close of the fiscal year for tax years beginning after December 31, 2015 and before January 1, 2026. Also, see Corporations.
Limited Liability Company (LLC)	Only member of LLC is an individual - LLC income and expenses are reported on Form 1040, Schedule C, E, or F. If you prefer to file as a corporation, Form 8832 must be submitted. Only member of the LLC is a corporation, income and expenses are reported on the corporation's return, usually Form 1120 or Form 1120S. Most LLCs with more than one member file a partnership return, Form 1065. If you would rather file as a corporation, Form 8832 must be submitted. No Form 8832 is needed if filing as a partnership.	See Publication 3402 or Publication 583

The following table was prepared by Farm Bureau and has been included to compare taxes under the rules of the new tax bill. https://www.fb.org/market-intel/hr1andag

	H.R. 1	Current Law
Corporate Tax Rate	21% flat rate	Rates are 15%, 25% and 34% and 35 %
Deduction for Property Taxes	Business deduction continues for real estate and person property taxes on farm business assets.	Businesses can deduct real estate and personal property taxes on farm business assets.
Sect 199 Domestic Production Acti vities Deduction	Repeals. Sect. 199	Sect. 199 allows a deduction for proceeds from producing agricultural or horticultural products. The deduction is limited to the lesser of 9 percent of adjusted gross income or 50 percent of W-2 wages paid. Cooperatives can claim the deduction or pass it to their members.
Capital Gains Taxes	Continues approximately the same rates and thresholds as present law.	Capital gains taxes are due when farm or ranch land, buildings, breeding livestock and timber are sold. Taxpayers in the 10 and 15 percent income tax brackets pay no capital gains tax. Taxpayers in the 25, 28, 33, or 35% brackets pay 15%. Those in the 39.6 percent bracket pay 20%.
Sect. 1031 Like-Kind Exchanges	Continues like-kind exchange deduction for buildings and land (real property). Like-kind exchanges will end for equipment and livestock.	Capital gains taxes and, in some cases, ordinary income tax on the sale of business property can be deferred if a farmer purchases replacement property of a like-kind.
Self-employment taxes	Does not change laws that determine the SE-taxes that farmers pay.	Farmers who file their taxes as sole-proprietors or as a member of a partnership pay SE taxes on their net business income. Farmers who organize their businesses as an S-corporation pay SE taxes on the portion of distributions that are classified as salary or wages.
Individual Income Tax Rates	\$12,000/\$24,000 single/joint standard deduction 10% above standard deduction 12% starting at \$19,050 22% starting at \$77,400 24% starting at \$165,000 32% starting at \$315,000 35% starting at \$400,000 37% starting at \$600,000 Rates and brackets sunset 12/31/25	\$6,350/\$12,700 single/joint std. deduction 10% above standard deduction 15% starting at \$18,650 25% starting at \$75,900 28% starting at \$153,100 33% starting at \$233,350 35% starting at \$416,700 39.6% starting at \$470,700
Sect. 179 Small Business Expensing	Permanently increases the amount of expenditures that can be deducted to \$1 million and increases the expenditure level at which the deduction begins to phase out to \$2.5 million. Both levels are indexed for inflation.	Allows farmers to immediately write-off the cost of new and used machinery and equipment, livestock, single-purpose agricultural and horticultural structures, and bulk storage facilities for commodities and fuel. The current deduction is limited to \$500,000 with the deduction beginning to phase out at \$2 million.
Immediate Expensing (Bonus Depreciation)	Allows businesses to fully and immediately write off business investments through 2022. After 2022, this percentage reduces by 20% each year until bonus depreciation is eliminated beginning in 2027. Expands the deduction to include used equipment.	Businesses can take 50 percent “bonus depreciation” in 2017, 40 percent in 2018 and 30 percent in 2019. All farm structures qualify for the bonus depreciation. Fruit and nut-bearing trees, vines, and plants can take the deduction when planted rather than waiting until they become productive.
Deduction for Business Interest Expenses	Limits the interest deduction for businesses with more than \$25 million of gross receipts by disallowing a deduction in excess of 30 percent of the businesses’ adjusted taxable income. Carryover rules are available so as to apply the excess interest expense to future years. Provides the option to elect an alternative to the gross receipts test and instead use an alternative depreciation system for property with a recovery period of ten years or more.	Businesses can claim a deduction for interest expenses.
Estate Taxes	Doubles the estate tax exemption to \$11 million per individual and indexes the exemption for inflation. Sunsets 12/31/25. Stepped-up basis is continued as is the transfer of any unused exemption amount to a surviving spouse.	The current exemption is \$5.49 million per individual indexed for inflation. Stepped-up basis is applied to inherited assets. Any unused exemption can be transferred to a surviving spouse.
Net Operating Loss	Net operating losses will be allowed to be carried back for 2 years. NOLs can be carried forward indefinitely but will be limited to 80% of income.	Farm net operating losses can be carried back 5 years. They can be carried forward 20 years.

Taxation of Pass-Through Businesses (Sole-proprietors, partnerships and S-corps.)	Individuals operating pass-through businesses will be able to take able to take a deduction for 20% of their business income through 12/31/2025. -Business income includes payments from cooperative, commodity wages and farmland rental income. -The deduction can be carried forward in loss situations. -The deduction is limited to 50% of W-2 wages paid to employees OR the sum of 25% of W-2 wages paid plus 2.5% of depreciable business property. - The W-2 limitation does not apply for taxpayers when their income does not exceed $315,000/$157,000 joint/individual and would be completely phased out when income reaches $415,000/$207,000 joint/individual. -The deduction is not available to individuals who own many service businesses, for example veterinarians, with income over $150,000. The deduction for service businesses starts to phase-out at $50,000 of income. - Cooperatives will be allowed to take the 20% deduction when determining their taxable income. -Trusts and estates will be eligible for the 20% deduction.	Profits from pass-through businesses are taxed at individual rates. 10% after $6,350/$12,700 standard deduction 15% starting at $18,650 25% starting at $75,900 28% starting at $153,100 33% starting at $233,350 35% starting at $416,700 39.6% starting at $470,700
Alternate Minimum Tax (AMT)	-Retains individual AMT but increases threshold used to determine when AMT is owed. Sunsets 12/31/2025. -Repeals corporate AMT	AMT is a supplemental income tax imposed on individuals and businesses that have exemptions or special circumstances allowing for lower payments of standard income tax.
Depreciation of Farm Machinery	Shortens the depreciation period for farm equipment and machinery to 5 years.	The depreciation period for farm equipment and machinery is 7 years.
Deduction for Replanting Citrus	Temporarily allows citrus growers to expense the cost of replanting groves that have been destroyed by citrus greening though 12/1/27.	The cost of replanting orchards must be capitalized and depreciated once the tree is productive.
Taxation of Craft Beverages	Incorporates the Craft Beverage Moderation and Tax Reform Act to streamline regulations for producers of craft beverages through 12/31/19	N/A

MARITAL PROPERTY

- Sec. 3.001. SEPARATE PROPERTY. A spouse's separate property consists of:
    - (1) the property owned or claimed by the spouse before marriage;
    - (2) the property acquired by the spouse during marriage by gift, devise, or descent; and
    - (3) the recovery for personal injuries sustained by the spouse during marriage, except any recovery for loss of earning capacity during marriage.
- Sec. 3.002. COMMUNITY PROPERTY. Community property consists of the property, other than separate property, acquired by either spouse during marriage.
- Sec. 3.003. PRESUMPTION OF COMMUNITY PROPERTY.
    - (a) Property possessed by either spouse during or on dissolution of marriage is presumed to be community property.
    - (b) The degree of proof necessary to establish that property is separate property is clear and convincing evidence.
- **Distinguishing Between Community Property And Separate Property**
- The following property is classified as **community property**:
    - Income either spouse earns during the marriage
    - Property purchased with income earned during the marriage
    - Real estate purchased during the marriage
    - Dividends, interest, and capital gain earned on community property

  - Dividends and interest earned on either spouse's separate property during the marriage
- **Separate property** includes any of the following:
  - Income earned by either spouse before the marriage
  - Property owned by either spouse before the marriage
  - Capital gain on separate property, such as appreciated stock
  - Any property acquired by gift or inheritance
  - Personal injury damages for a physical injury sustained, even while married (except for lost wages which are community property)
- Spouses can agree that income or property arising from separate property will be separate property.
  - Tex. Const. art. XVI, § 15; Tex. Fam. Code §§ 4.102 (partition or exchange agreement) and 4.103 (spousal agreement concerning income or property from separate property).
  - Where a written agreement makes income or property arising from a business entity separate, proving the agreement establishes the separate property character of the distribution.
  - Sometimes partnership agreements or organizational documents for corporations or limited liability companies contain a paragraph that constitutes an agreement between spouses that distributions from the entity will be separate property. Proof of the agreement proves the separate property claim.
- Based on current Texas statutory law the only interest that can be owned by "the member's spouse, to the extent of the spouse's membership interest, if any, is an assignee of the membership interest." (Texas Business Organization Code, §101.1115. "Effect of Death or Divorce on Membership Interest").
- An assignee of an LLC does not have the right to:
  - participate in the management or affairs of the LLC
  - become a member of the LLC
  - exercise any rights of a member
- An assignee only has the right to be allocated income, gain, loss, deduction, credit or similar items, and to receive distributions to which its assignor (the owner spouse) was entitled, to the extent those items are assigned.
  - In addition, the assignee acquires the right for any proper purpose to require reasonable information or account of transactions of the LLC and to make reasonable inspection of the LLC's books and records.

Questions:

1. Harlow, a married entrepreneur with substantial assets in Texas, has recently inherited $100,000 from a rich uncle and after attending the TSCRA convention, has decided to enter the cattle business. Harlow uses the inheritance money to invest $75,000 in cow/calf pairs and uses the remaining $25,000 to purchase implements to process and work his new cattle. Which business structure could Harlow use to set up his new venture and which structure would be the most advantageous?
    a. After Year 1, Harlow plans to reinvest his cattle profits into $50,000 of new cattle, but only has $25,000 total profit available from his business to reinvest; he plans to use an additional $25,000 from his joint checking account to complete the purchase. To what extent is part of his business now considered community property?
    b. After forgetting to fix fence on his property, one of Harlow's cows escapes onto the highway and is involved in an auto accident. Harlow did not carry any liability insurance for his business. Assuming Harlow is found negligent and is responsible for the accident and a judgment of $250,000, to what extent would Harlow be liable for the judgment as a sole proprietor? If the business assets were set up in an LLC?
    c. After a few years of profitability in the cow/calf sector, Harlow decides to turn out stocker calves on his property but is seeking some outside investment for a large set. Harlow's father, looking for an investment opportunity but not wanting to handle the cattle on a daily basis, decides to invest $100,000 alongside $200,000 invested by Harlow. Which business structure would suit this arrangement best? Assuming a profit of $30,000 was made by this venture, how would the profits be split, if at all?
2. Wade, a single man, his sister Donna, a single woman, and Kate, a married woman, recently inherited a vast ranch and cattle operation from their father, a sole entrepreneur. Wade and Donna, having worked on the ranch their entire lives, inherited 80% of the total property (40% each), while Donna inherited 20% of the total property. Wanting to keep the business and ranch intact, which business structures could they set up for the property and what would be the advantages of each?
    a. After setting up all the property in an LLC, with each sibling owning their respective share of the LLC that represents the property inherited, Wade marries a local woman, Sue, a short time later. As part of his ownership, Wade earns a business income of $150,000 from his share. How much of his earnings are considered community property?
    b. After careful consideration, Wade and his sisters elect to have their LLC taxed as a C-Corp. The LLC reports earnings of $500,000 for fiscal year. What is their corporate tax burden? After paying the tax, if the remaining profit was distributed as dividends, how much would each sibling get?
    c. Not liking paying corporate income tax, the LLC is changed to an S-Corp election with the same earnings of $500,000 the following year. If Wade and Donna elect to classify some of the earnings as salary of $55,000 and Kate a salary of $15,000, what percentage of the earnings will have self-employment taxes taken out and what percentage will be taxed at normal income levels?