

All about Corporate Taxes



Taxes and the Income Statement

Federal income tax is collected on Taxable Income.

	2022
Revenues	\$1,000,000
COGS	\$600,000
Gross Profit:	\$400,000
R&D	\$30,000
SG&A	\$170,000
Depreciation	\$30,000
Operating Expenses	\$230,000
Income Before Taxes	\$170,000
Income Tax	\$35,700
Net Income	\$134,300

← Taxable Income

Corporate Tax Rates

Corporate Tax Rates in the U.S. used to be graduated...

Taxable Income (\$)	2017 Tax Rates
0 to 50,000	15%
50,000 to 75,000	\$7,500 + 25% of the amount over \$50,000
75,000 to 100,000	\$13,750 + 34% of the amount over \$75,000
→ 100,000 to 335,000	\$22,250 + 39% of the amount over \$100,000
→ 335,000 to 10,000,000	\$113,900 + 34% of the amount over \$335,000
10,000,000 to 15,000,000	\$3,400,000 + 35% of the amount over \$10,000,000
15,000,000 to 18,333,333	\$5,150,000 + 38% of the amount over \$15,000,000
→ 18,333,333 and up	35%

But that was so last century...

Corporate Tax Rates

As of January 1, 2018, the corporate tax rate is a “flat” 21%.

Taxable Income (\$)	Tax Rate
\$1 and Beyond	21%

Why would the government do this?

Reducing tax rates from 35% to 21 % was believed to make U.S. companies more competitive with other companies around the world.

Companies could use the tax reduction to invest in its people and its facilities.

Made possible by the Tax Cuts and Jobs Act, passed on December 20, 2017.



Calculating Federal Taxes Today

At the end of the year, your company's 2022 Income Statement shows the following:

Revenues: \$18,000,000
COGS: \$11,000,000
Operating Expenses: \$ 3,000,000

Approximately what would your company pay in federal income tax for the 2022 fiscal year?

Revenues: \$18,000,000
COGS: \$11,000,000
Operating Expenses: \$ 3,000,000
Taxable Income: \$ 4,000,000

Taxable Income (\$)	Tax Rate
\$1 and Beyond	21%

$$\text{Tax} = 0.21 * \$4,000,000$$

$$\text{Tax} = \$840,000$$


Note: this only accounts for Federal taxes. State and local taxes may also exist.

This only applies to corporations. LLC's and partnerships are taxed differently, usually at personal income tax rates.

Personal Income Taxes Calculations...

Your salary is taxed at the federal level using a progressive tax rate structure:

Single

If taxable income is over—	but not over—	the tax is:
\$0	\$9,700	10% of the amount over \$0
\$9,700	\$39,475	\$970 plus 12% of the amount over \$9,700
\$39,475	\$84,200	\$4,543 plus 22% of the amount over \$39,475
 \$84,200	\$160,725	\$14,382 plus 24% of the amount over \$84,200
\$160,725	\$204,100	\$32,748 plus 32% of the amount over \$160,725
\$204,100	\$510,300	\$46,628 plus 35% of the amount over \$204,100
\$510,300	no limit	\$153,798 plus 37% of the amount over \$510,300


Your “marginal” tax rate is the highest rate that you pay, e.g., 24%.

Your “average” tax rate is just the amount of tax you pay divided by your taxable income.

Personal Income Taxes Calculations...

Your salary is taxed at the federal level using a progressive tax rate structure:

Married Filing Jointly or Qualifying Widow (Widower)

If taxable income is over—	but not over—	the tax is:
\$0	\$19,400	10% of the amount over \$0
\$19,400	\$78,950	\$1,940 plus 12% of the amount over \$19,400
 \$78,950	\$168,400	\$9,086 plus 22% of the amount over \$78,950
\$168,400	\$321,450	\$28,765 plus 24% of the amount over \$168,400
\$321,450	\$408,200	\$65,497 plus 32% of the amount over \$321,450
\$408,200	\$612,350	\$93,257 plus 35% of the amount over \$408,200
\$612,350	no limit	\$164,709 plus 37 % of the amount over \$612,350

Your “marginal” tax rate is the highest rate that you pay, e.g., 22%.

Your “average” tax rate is just the amount of tax you pay divided by your taxable income.

Main Takeaways...

Taxes impact a project's cash flows.

As of 2018, corporate federal tax rates were reduced from a maximum marginal tax rate of 35% to a flat 21% of taxable income.

Accounting for taxes in our project analysis is a straightforward process.

However, at the corporate level, determining the company's taxable income is a field all by itself, and often requires special expertise.

Unless you become a CPA (Certified Public Accountant), you won't ever have to worry about your company's taxes!



Next Time...

The Impact of Inflation



Credits & References

Slide 1: Tax payment concept by vectorhot, Adobe Stock (208067609.jpeg).

Slide 3: United States Capitol Building, on Capitol Hill in Washington DC, USA by 3000ad, Adobe Stock (190125904.jpeg).

Slide 4: Modern business woman accountant in office by rogerphoto, Adobe Stock (121231018.jpeg).

Slide 9: Dates falling dollar by Kuleshin, Adobe Stock (70713883.jpeg).