

**EXHIBIT  
TAX SAVINGS BY REDUCING A BONUS AND  
INCREASING THE AMOUNT OF DIVIDENDS**

**Assumptions:**

- Closely held C corporation with one owner/employee
- Taxable income of closely held C corporation before bonus or dividends: \$150,000
- Owner/employee's marginal income tax rate: 32%
- Overall payroll tax rate for the C corporation and owner/employee (including employee/employer share of Social Security and Medicare taxes, federal unemployment taxes, state unemployment taxes, and other payroll related taxes): 16%

**Situation A:** U.S. income tax liability and payroll tax liability, assuming that the \$150,000 is treated as a bonus to the owner/employee and the closely held C corporation has no taxable income:

Payroll taxes on bonus (\$150,000 x 16%)	\$24,000
Individual income taxes paid on bonus (\$150,000 x 32%)	<u>48,000</u>
Total taxes	<u>\$72,000</u>

**Situation B:** U.S. income tax liability and payroll tax liability, assuming that \$75,000 is treated as bonus to the owner/employee, the closely held C corporation distributes the remaining \$75,000 as a dividend, and the closely held C corporation has \$75,000 in taxable income:

Payroll taxes on bonus (\$75,000 x 16%)	\$12,000
Individual income taxes paid on bonus (\$75,000 x 32%)	24,000
Individual income taxes paid on dividend (\$75,000 x 15%)	11,250
Corporate income taxes paid on taxable income	<u>13,750</u>
Total taxes	<u>\$61,000</u>

**Difference Between Situation A and Situation B:** Overall tax savings if \$75,000 is treated as a bonus and \$75,000 is treated as a dividend:  
(\$72,000 – \$61,000) \$11,000