**8779. How is a C corporation taxed?**

Unlike in the partnership context, a corporation is required to file a tax return and pay taxes at the entity level. The owners of the corporation (its shareholders) also pay taxes at the individual level based on any distributions received as dividend income based on stock ownership.

A corporation pays tax according to a graduated rate schedule, which can result in a lower tax rate for corporations with relatively modest earnings. The corporate tax rates range from 15 percent to 35 percent. The first $50,000 of a corporation’s earnings is taxed at the 15 percent rate, but the next $25,000 of earnings is taxed at 25 percent. Earnings above $75,000, but below $10,000,000, are subject to a 34 percent rate. A 35 percent rate applies to corporate earnings above the $10,000,000 level. [[1]](#footnote-1)

Taxable income is computed for a corporation in much the same way as for an individual. Generally, a corporation may take the same deductions as an individual, except those of a personal nature (such as deductions for medical expenses and the personal exemptions). A corporation also does not receive a standard deduction.

Some deductions are allowed specifically for corporations, however, including a deduction equal to 70 percent of dividends received from other domestic corporations, 80 percent of dividends received from a 20 percent owned company, and 100 percent for dividends received from affiliated corporations (see Q 8780 for a detailed discussion of the deductions available with respect to dividends).[[2]](#footnote-2) A corporation may deduct contributions to charitable organizations to the extent of 10 percent of taxable income (with certain adjustments).[[3]](#footnote-3) Generally, charitable contributions in excess of the 10 percent limit may be carried over for five years.[[4]](#footnote-4)

A corporation is also allowed a deduction for production activities. This deduction is equal to nine percent of a taxpayer’s qualified production activities income (or, if less, the taxpayer’s taxable income). The deduction is limited to 50 percent of the W-2 wages paid by the taxpayer for the year. The definition of “production activities” is broad and includes construction activities, energy production, and the creation of computer software.[[5]](#footnote-5)

Capital gains and losses are netted for a corporation in the same manner as for an individual (see Q 8556) and net short-term capital gain, to the extent it exceeds net long-term capital loss, if any, is taxed at the corporation’s regular tax rates.

A corporation reporting a net capital gain (where net long-term capital gain exceeds net short-term capital loss) is taxed under one of two following methods, depending on which produces the lower tax:

1. *Regular method*. Net capital gain is included in gross income and taxed at the corporation’s regular tax rates; or

2. *Alternative method*. First, a tax on the corporation’s taxable income, exclusive of net capital gain, is calculated at the corporation’s regular tax rates. Then a second tax on the net capital gain (or, if less, taxable income) for the year is calculated at the rate of 35 percent. The tax on income exclusive of net capital gain and the tax on net capital gain are added to arrive at the corporation’s total tax. For certain gains from timber, the maximum rate is 15 percent.[[6]](#footnote-6)

1. . IRC Sec. 11(b). [↑](#footnote-ref-1)
2. . IRC Sec. 243. [↑](#footnote-ref-2)
3. . IRC Sec. 170(b)(2). [↑](#footnote-ref-3)
4. . IRC Sec. 170(d)(2). [↑](#footnote-ref-4)
5. . IRC Sec. 199. [↑](#footnote-ref-5)
6. . IRC Secs. 1201, 1222. [↑](#footnote-ref-6)