

**October 15, 2010**  
**ALERT: C (and some S) corporations:**  
**Consider increasing dividends in 2010 if tax rates increase in 2011**

*This is the second in a series of tax alerts providing strategies to deal with the potential of significantly increased individual tax rates in 2011 if Congress does not extend the tax cuts enacted in 2001 and 2003. If you did not receive the first alert (sent out approximately Sept. 2), or would like another copy of it, please contact your AGH tax advisor.*

If Congress does not act to extend the Bush tax cuts this fall, tax rates on dividends, capital gains and individual tax rates will all rise – leaving taxpayers a very short window in 2010 for strategies to reduce their tax liability.

Many C corporations have built up substantial earnings and profits (essentially, retained earnings) over the years. These corporations should now consider whether 2010 is a good year to distribute those profits in the form of dividends to the shareholders, since these dividends will be taxed at no more than a 15% federal tax rate. Such a strategy would also act to reduce any potential excess accumulated earnings tax exposure that the C corporation may have.

Some S corporations which used to be taxed as C corporations have also built up earnings and profits from years when they were taxed as C corporations. For the same reasons cited above, these corporations should review the possibility of distributing those profits before the end of the current year.

Typically, C corporations minimize tax liability by paying year-end deductible bonuses to shareholders. A different strategy may be advantageous for 2010 even with the double taxation of corporate earnings when dividends are paid to shareholders. With the individual tax rate at 15% through the end of the year, paying dividends instead of bonuses to shareholders may result in a lower combined individual and corporate tax burden.

Obviously, many factors play into whether paying dividends in 2010 vs. 2011 may provide more tax benefit. ***As stated in the previous overview of the potential tax increase, numerous changes in the tax code make it essential that you discuss your specific situation with your tax professional to determine the strategies for tax minimization that are right for you.***

If you have any questions about this alert, contact your AGH tax professional or AGH vice president of tax services Shawn Sullivan at (316) 291-4110 or email [shawn.sullivan@aghlc.com](mailto:shawn.sullivan@aghlc.com).

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