



DELAWARE – ANNUAL TAX COMPLIANCE

Delaware - Franchise Tax



A franchise tax is a levy charged by some US states to certain business organizations such as corporations and partnerships **with a nexus in the state**. Delaware Corporation must file Annual Report and pay franchise tax

Franchise tax varies with different corporate entities. C corporations and S corporations pay tax **according to number of shares or assumed no-par capital**.

Franchise tax is due for Annual Report filing by **March 1st of every year**.

The **minimum tax** is \$175 for corporations using the Authorized Shares method and a minimum tax of \$400 for corporations using the Assumed Par Value Capital Method.

All corporations using either method **will have a maximum franchise tax** of \$200,000 unless it has been identified as a Large Corporate Filer, then their franchise tax will be \$250,000-

Limited liability companies, limited partnerships and general partnerships pay an **annual franchise tax of \$250**

State Level – Corporate Income Tax

Income deriving from business conducted in Delaware is taxed **at a rate of 8.7%** on the federal taxable income allocated and apportioned to Delaware.

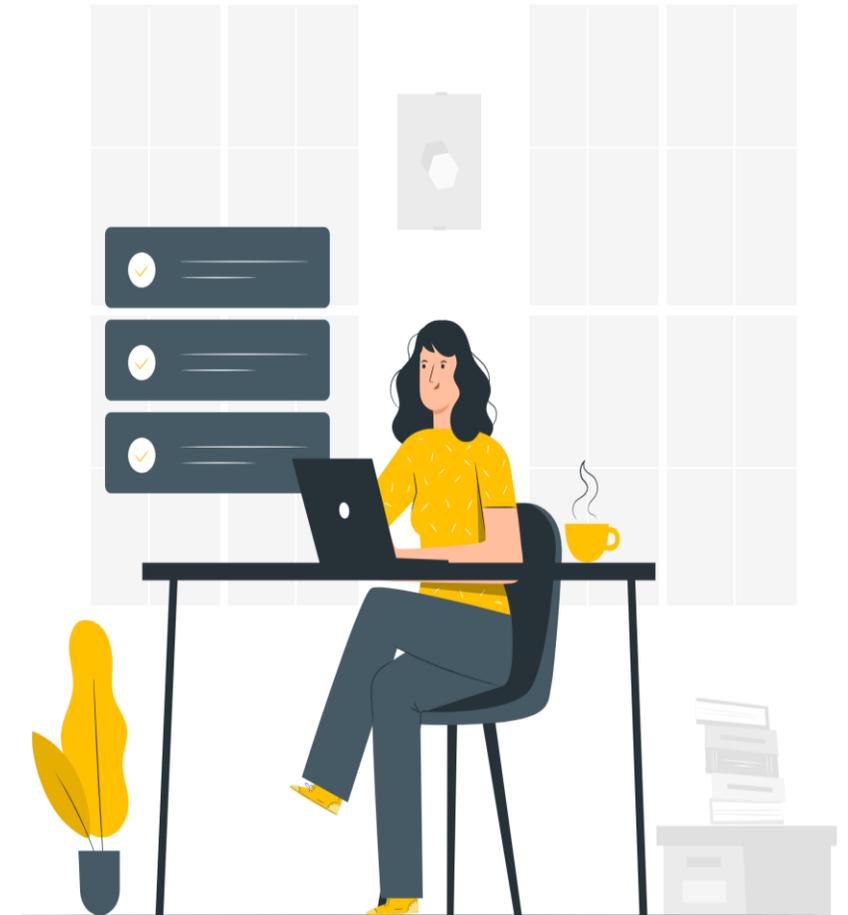
At state level, companies are only required to file a Delaware corporate tax return if they conduct business in Delaware.

If the activities are limited to managing and maintaining intangible investments, the companies are exempted from paying taxes, provided they **submit an application of exemption**.

Every S-Corporation deriving income from sources within Delaware is required to **file a Form 1100S** (S-Corporation Reconciliation and Shareholders Information Return). Delaware recognizes the Federal S election and does not impose corporate **income tax on pass-through income**. However, their shareholders are taxed for their portions of the corporation's income or losses.

Non-profit organizations are also exempt from filing a return, although they do have to **submit an annual report** with the Delaware Division of Corporations.

Estimated Tax Liability to be prepaid in four installments: 50% due on or before the 1st day of the 4th month of the taxable year and 20% , 20% & 10% due on or before the 15th day of the 6th, 9th & 12th month of the taxable year respectively



Key Points – Corporate Income Tax



Delaware law does not have the concept of **minimum corporate income tax**.

C corporations against its income can claim business expenses, including but not limited to cost of goods, salaries, fringe benefits, interest payments and improvements in addition to employee benefits

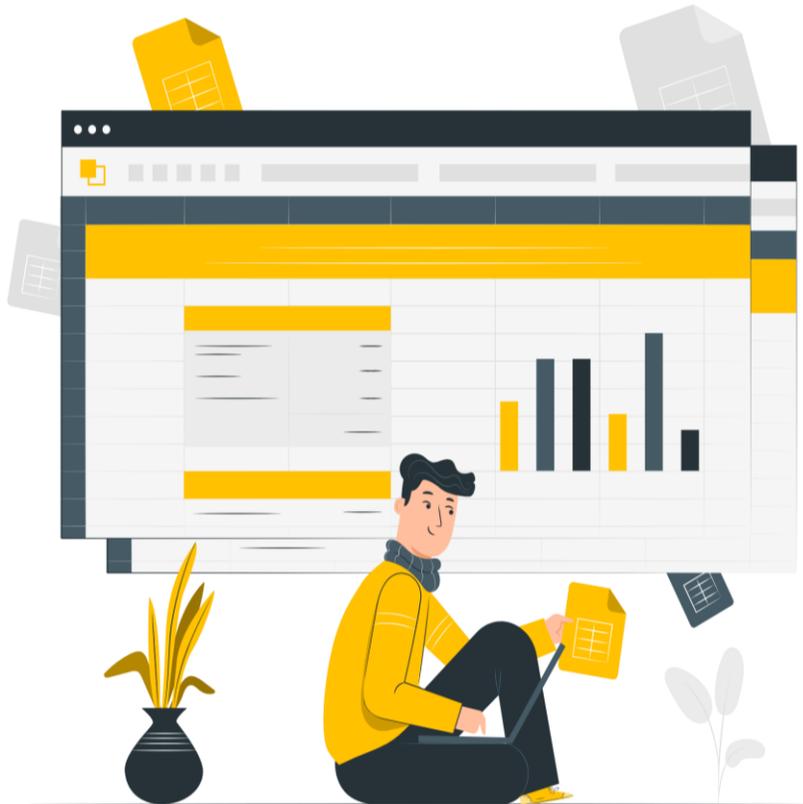
S corporations can also make the above deductions, instead they are **taxable in the hands of shareholders**.

Delaware permits businesses with a net operating **loss to offset** it against profits for the preceding years (no more than **\$30,000** for each of the prior 2 years). Losses can also be carried forward **against 20 years** of future profits.

Late filings are subject to a **penalty of 5% per month**, plus **interest of 0.5% per month** from the original due date until paid. An **additional penalty of 1% per month** (not to exceed 25%) is imposed for failure to pay (in whole or in part) the tax liability shown to be due on a timely filed return.

Federal Level Tax

All corporations formed in the United States are taxed **on worldwide income** at the federal level, regardless of exemptions for the Delaware corporate tax return.



Profits of an LLC are generally passed through to the LLC's owners and taxed on the **owner's federal tax returns**. **LLC** doesn't pay federal taxes.

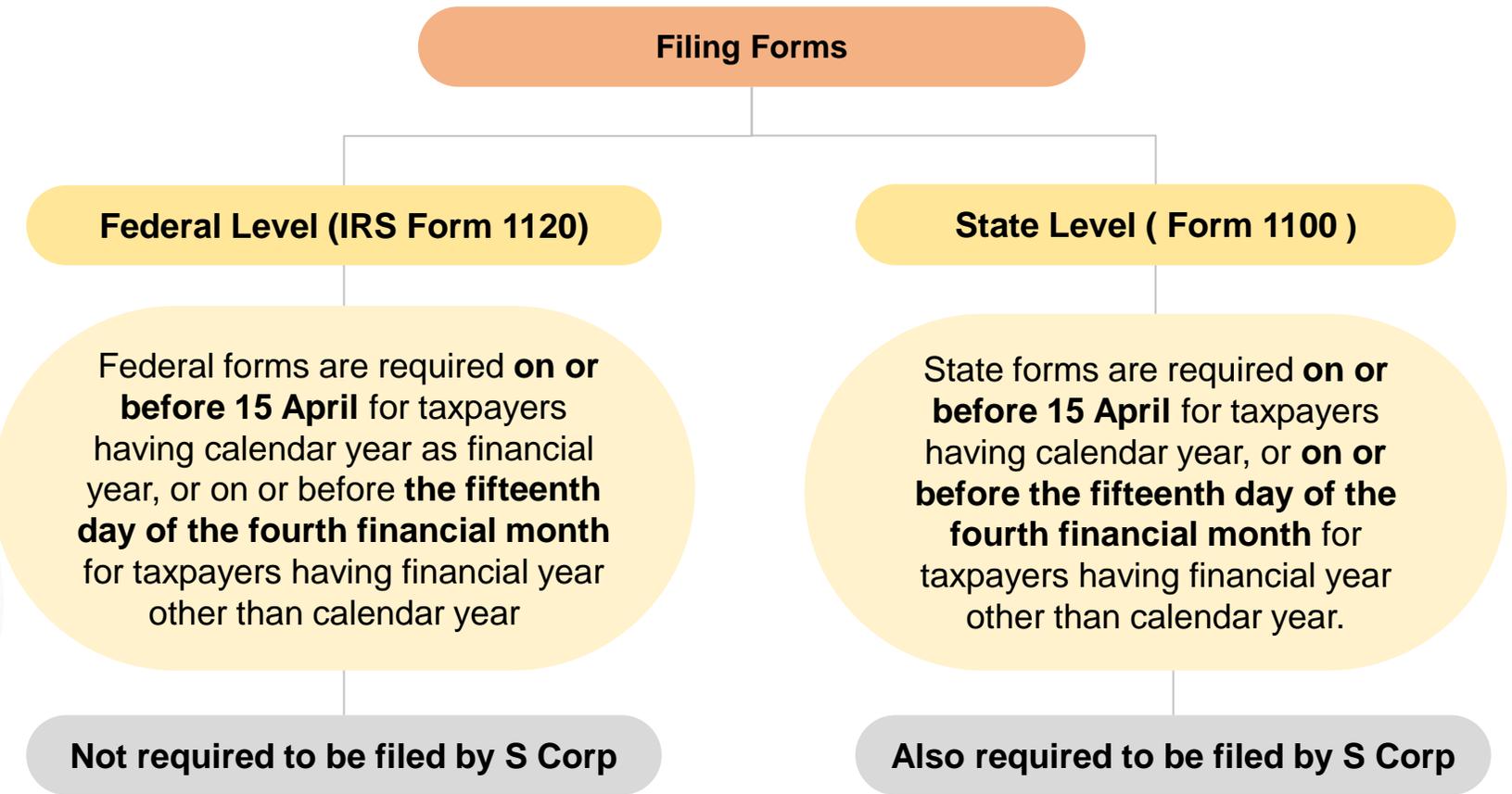
Federal taxes are applicable to all US companies, **regardless of the state they were incorporated in**. S corporations do not pay federal taxes.

Form 1120-W, Estimated Tax For Corporations, is a worksheet used to calculate required **installments of estimated tax**.

C-corporations generally must make payments if their estimated tax (income tax less credits) **to be \$500 or more**. The installments are generally due by the 15th day of the 4th, 6th, 9th, and 12th months of the tax year.

Under current law, c-corporations in the United States pay federal corporate income taxes levied at a **21 percent rate**.

Tax Filing Requirements

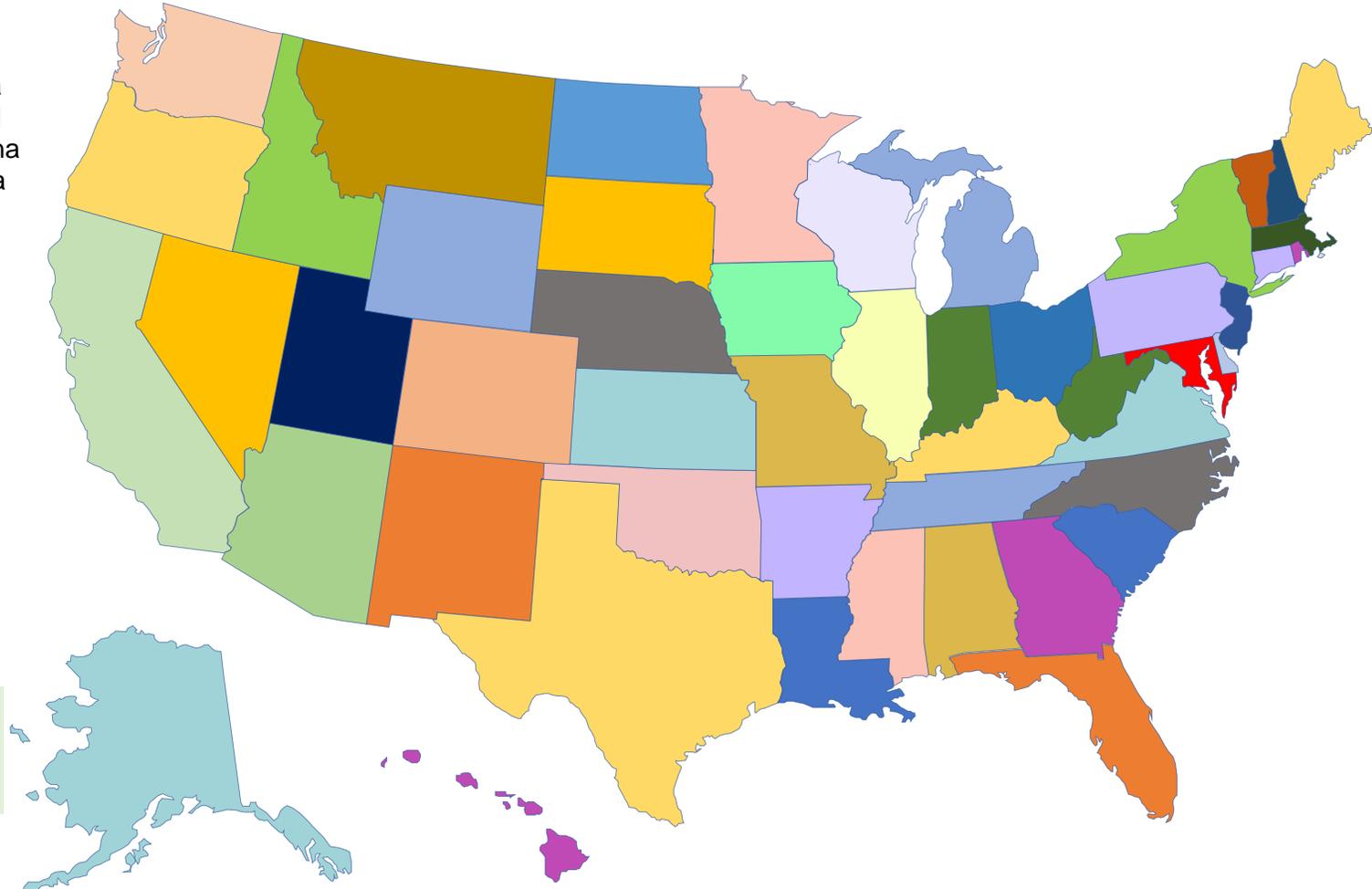


Corporate tax returns are required to be submitted in paper form

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