Calculating the Corporate Income Tax

As a separate tax entity, a corporation must pay federal income tax on its taxable income, calculated as follows:

Step 1: Determine Gross Income

Gross corporate income includes gross sales from goods sold, gross receipts from services provided, rents, royalties, interest received, dividends received and/or capital gains.

Step 2: Subtract Allowable Business Deductions

Corporations can deduct the ordinary and necessary expenses paid or incurred during a tax year in carrying out the trade or business. These deductions can include expenses such as compensation paid to employees, rent, telephone, advertising, office supplies, interest, depreciation, taxes, employee benefits and others.

Step 3: Calculate Income Tax

A corporation subtracts its allowable business deductions from gross income to arrive at taxable income. The following federal corporate income tax rates are then applied to taxable income to arrive at the federal corporate income tax due.

For Taxable Income from:	to:	The Federal Income Tax Is:	Of the Amount Over:
$ 0	$ Infinity	21%	$ 0