

Personal Holding Company

A personal holding company (PHC) is a “C” corporation that is taxed by the IRS at regular corporate rates on net income, but is also assessed an additional PHC tax of 15% “undistributed PHC income”. The PHC tax is essentially a penalty tax.

A corporation qualifies as a personal holding company if:

1. at least 60% of the corporation’s **adjusted** ordinary gross income for the tax year is personal holding company income (such as dividends, interest, rents, royalties, or annuities), **and**
2. at any time during the last half of the tax year more than 50% in value of the corporation’s outstanding stock is owned, directly or indirectly, by five or fewer individuals.

The following corporations are exempt from being classified as personal holding companies, even if the above two requirements are met:

1. Tax-exempt companies.
2. Banks and savings and loan associations.
3. Life insurance companies.
4. Surety companies.
5. Foreign personal holding companies.
6. Certain lending or finance companies.
7. Certain small business investment companies.
8. Certain companies in bankruptcy.

If the corporation is a personal holding company, Schedule PH must be completed and attached to the Company’s tax return.

Remedy

If the expectation is that the business entity will generate a large amount of PHC type income, owners may want to consider forming a limited liability company (LLC) rather than a “C” corporation, or implementing other strategies to minimize PHC income.

