



## **Subject: OWNERS' PAYROLL/TAX PLANNING**

### **Legal Structure of Employer**

Business owners of unincorporated entities, such as “sole proprietorships” and “LLC’s”, should not be “on payroll”, but instead should personally pay quarterly estimated tax payments on business profits.

Owners of “C” or “S” corporations should be “on the payroll” if they are active in the business operations of their company. If the owners are inactive as investors only, they should receive dividends on their stock and not be “on the payroll”.

**QUERY – Are you correctly paying business owners based on the legal structure of your business?**

### **Maximizing Your Pension Plan**

If an active business owner’s objective is to maximize their annual tax deductible funding to the Company’s retirement plan, then the Owner’s compensation should be at a level to achieve the retirement plan funding objective.

Calculating an owner’s compensation to optimize retirement plan funding varies significantly based on the numerous types of available retirement plans. The well-known 401K plan is merely one type of tax-qualified retirement plan, which include SIMPLE – IRA, 403b annuity, profit-sharing, cash balance plans, etc.

**QUERY – Do you have the right retirement plan for your organization, and are owners’ salaries calculated to optimize plan funding?**

### **Saving Payroll Taxes**

A very common and also effective strategy for saving FICA and Medicare taxes is to operate as an “S” corporation, pay “reasonable compensation” to the active business owners, and distribute the remaining profits as dividends from the “S” corporation (including LLC’s which have actively elected “S” tax status). It is not uncommon for the owner of an “S” corporation to save \$10,000 or more each year in payroll taxes by setting a salary at a “reasonable” level which is less than the total annual business profits.

**QUERY – If you are taxed as an “S” corporation, have you carefully set owners’ wages at levels to save payroll taxes and also are defensible if challenged by the IRS?**

### **Get Your Business Expenses Reimbursed**

As year-end approaches, every business owner needs to review their personal records and identify legitimate business expenses they have personally paid during 2009. Make sure you submit documentation to your company and get reimbursed by 12/31/09. The reimbursement is generally tax-deductible to your company and is not taxable to you.

**QUERY – Do you have a system in place which captures business expenses you pay personally, so you can be reimbursed each year?**

### **CONCLUSION**

How you pay business owners is based on the legal structure of the Company and also setting pay levels which will save payroll taxes and/or meet retirement funding objectives. **One of AccuPay’s “CPP/CPA teams” would be pleased to assist you and your tax advisor with further information – simply call us at 885-7600 or toll free at 877-885-ACCU (2228)**

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