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## **Larry's Top Ten Payroll Tax Tips**

The following list of 10 ways in which small business owners (plus a pastor tax tip too!) can save income and payroll taxes was compiled by **Larry Shaub, CPA, CFP, AccuPay's Tax Director** and long-time tax advisor to small business owners and churches/pastors.

AccuPay's payroll service includes "no-charge advice", tax research, and even "2nd opinions", by Larry for AccuPay's payroll clients. **You can address tax questions to Larry at 317-885-7600 or to [larry@accupay.com](mailto:larry@accupay.com).**



## **TOP TEN TAX TIPS**

**(1) Owners of "S" corporations should generally establish their salaries at the lowest "reasonable" levels.** The "S" corporation and employee-owner pay FICA/Medicare taxes on wages/salaries, but not on "S" distributions/dividends. You must be able to justify the lower wage level as "reasonable."

**(2) Pastors of churches should carefully "set" their housing allowances every year, and on the "high side".** Household expenses which exceed a pastor's declared/designated housing allowance are not tax deductible. Therefore, a pastor should review their personal checkbook for an "estimate" of anticipated housing expenses, and then "add a cushion" of \$3,000-\$5,000 in setting their housing allowance each year. In this manner, unexpected household expenses are deducted for income tax purposes.

**(3) One of the most effective "tax shelters" for a business owner is selection of the "right" qualified retirement plan.** The qualified plan should be custom-designed to meet your specific objectives as to the level of owner pension funding, costs for employee participation, complexity of administration, flexibility as to annual funding requirements, and the like. It is common that

the best plan choice for your business today will change as your business income and employee profit changes in future years (along with tax law changes);

**(4) Many small businesses involve the time and efforts of various family members. A very common tax planning strategy is for a high income business owner to compensate children, parents and other relatives, which shifts income and the associated tax burden to lower tax bracket family members.** It is important that a business owner can justify family payroll amounts as "reasonable" based on the value of the services. Putting family members "on the payroll" is an excellent tax-deductible way in which to provide financial support to children and parents;

**(5) Owners and employers should carefully understand their employer's pension plan and current tax laws** as to employer matching provisions, Roth features, maximum annual funding limits, etc. Higher income employees should consider "maxing out" their employee pre-tax contributions to their employer's plan. Employees in lower tax brackets generally benefit by investing after-tax into their employer's Roth account, if the plan permits Roth account funding;

**(6) Employee fringe benefits provided as part of a written Section 125 "cafeteria" plan save taxes for both the employer and employees.** A Section 125 plan enables employee payroll deductions for health insurance, HSA accounts, flexible spending accounts, etc. to be "pre-tax" for both income and FICA/Medicare taxes. Each employee saves income and payroll taxes, and the employer is not required to "match" the 7.65% "employer share" of payroll taxes;

**(7) Business expense reimbursements made to employees, including owner-employees, should be made pursuant to an "accountable expense reimbursement plan".** Such a plan requires that the employee document/prove the expense reimbursement request, and the employer reimburse the exact documented expense request.

Reimbursements made pursuant to an "accountable expense reimbursement plan", including vehicle expenses, are deductible to the employer and non-taxable to the employee. A fixed "allowance" for business vehicles, supplies, etc. is taxable for income and FICA/Medicare taxes, and the employer is required to "match" the FICA/Medicare taxes. An employee's actual unreimbursed business expenses, including those paid from an "allowance", are subject to deduction limitations on a personal tax return. Every "dime" of a business owner's business expenses should be reimbursed from the business bank account;

**(8) An individual's spouse claims social security retirement benefits at the greater of his/her own social security account OR 50% of the spouse's social security benefit amount.** A common misconception is that a business owner's spouse should "go on the payroll" from age 50 to 60 in order to build up his/her social security account. This generally is a very poor decision in which FICA/Medicare taxes are paid into the spouse's account which generates no increase in otherwise available social security retirement benefits. Compensating the business owner's spouse for services should be considered if your financial objective is maximum funding of your business's 401k/profit-sharing plan;

**(9) "S" corporations should directly pay or reimburse the health insurance for "S" corporation owner-employees.** Medicare premiums for older "S" corporation owner-employees

are included for this tax deduction. The IRS has made it clear that they will challenge tax deductions for "S" corporation owner-employees who are not paid by the corporation. With monthly insurance premium amounts of \$1,000-\$1,500 quite common, every owner of an "S" corporation should pay health insurance in a manner instructed by the IRS. If you personally paid insurance premiums earlier this year, get reimbursed from your "S" corporation by the end of 2013;

**(10) "Work opportunity tax credits" can save enormous amounts of income tax for businesses that hire employees who often have difficulty obtaining employment.** Tax law details several categories of new hires eligible for the "WOTC", which often include food stamps, veterans, and "welfare" households. People who qualify for the tax credits can be found everywhere, but are common in low-paid, unskilled jobs. Large employers such as Walmart claim millions of dollars annually in WOTC tax credits, whereas most smaller employers do not claim the hiring tax credits due to lack of awareness and know-how. AccuPay provides "WOTC" tax credit consulting and processing services to employers. **Call Leslie Myrick at 317-885-7600 if you think you are overlooking these tax credits.**

You should consult with your CPA/tax advisor about the application of these tax strategies to your unique tax structure and fact pattern.

*PayDay is an email communication of payroll news, legal updates and tax considerations intended to inform clients and colleagues of AccuPay about current payroll issues and planning techniques. You should consult with your CPA or tax advisor before implementing any ideas, comments or planning techniques.*