



Potential Savings If Taxed As An "S" Corporation

Savings Are From Reduced **Self Employment** Taxes

Employee Social Security/Medicare Taxes = 7.65%

Employer Social Security/Medicare Taxes = 7.65%

Total Self Employment Taxes = 15.3%

Savings Based On **PROFITS** Of Company, Not Gross Income

Assumed Profits = \$60,000

Example Assumes Normal Federal and State Taxes On Profits of Company

No Change In Federal and State Income Taxes

Sole Proprietor

Profits = \$60,000

Self Employment Taxes = \$9,180 (\$60,000 times 15.3%)

"S" Election At IRS

Assumption - If Reasonable W-2 Wage Is Paid, Distribution Of Remaining Profits Is Exempt From Self Employment Taxes (Savings Of 15.3%)

Profits = \$60,000

Reasonable?? W-2 Wage = \$30,000

Social Security/Medicare = \$4,590

Distribution Of Profits = \$30,000

Self Employment Taxes = \$0

SE Tax Savings = \$4,590

Other Issues

Need To Run Payroll = Estimate of \$600/year

Adds Complexity, But Increases Tax Discipline

"S" Election Tax Return More Time Consuming = Cost Increases

Cost of Tax Return Always Function of Accuracy of Information

Provided by Tax Payer