CLIENT REPORT:
Fact Sheet on Wage Compensation for S Corporation Officers

Dear Client:

As you know, an S corporation is a pass-through entity that is treated very much like a partnership for federal income tax purposes. As a result, all income is passed through to the shareholders and taxed at their individual tax rates.

However, the nature of the shareholders' income is subject to IRS scrutiny, especially if they provide more than minor services to the corporation. Shareholders who receive or are entitled to receive payment are considered employees whose compensation is subject to federal employment taxes. This becomes problematic if shareholders have not received "reasonable compensation" for services rendered to the corporation, but have received significant corporate distributions of cash and property, or loans.

There are numerous factors that are considered when determining "reasonable compensation," including time and effort devoted to the business, duties and responsibilities, training and experience, payments to non-shareholder employees, and what comparable businesses pay for similar services.

We can help you determine the range of reasonable compensation for your business, and where shareholders' compensation should fall within that range, by evaluating your current compensation practices and other pertinent data. In addition, we can review your employee fringe benefits package and discuss the impact of those benefits on more than 2% shareholders. Please call our office to arrange an appointment at your earliest convenience.

Sincerely yours,

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