



Can you Reduce your Employment Taxes?

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You might save on your employment taxes if your business is taxed as an "S Corporation."

Generally, an owner of a business that is taxed as a "partnership" (most LLCs) must pay federal self-employment taxes on the business's income. For 2012, self-employment taxes are 10.4% of the first \$110,100 of the owner's income from self employment, and 2.9% on income from self employment in excess of \$110,100.

Compare the employment taxes of the owner of the same business if the business is taxed as an "S corporation." The owner does not pay self-employment taxes on the business's income allocated to them. Instead, the owner must draw a reasonable salary from the business, and that salary is subject to FICA taxes. These taxes are economically identical to self-employment taxes from the owner's perspective. The salary drawn need not, however, equate to all of the business's income — only what is reasonable for the services actually provided by the owner.

Therefore, the owner of an S corporation will pay employment taxes (FICA taxes) on only a portion of the business's income, but the owner of a partnership can pay employment taxes on all of the business's income.

We recommend that clients consider this potential tax savings strategy when selecting their business entity, together with the many other issues that affect this important decision. Please contact Nick Oertel (517-371-8139) or Joel Farrar (517-371-8305) if you have questions.

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