

How much am I worth? It depends who's asking.....

What am I worth is an interesting question, because it largely depends on who's asking and why. An insurance advisor is considering your future. A headhunter is examining your track record and potential. But what we are concerned with is if the **IRS is asking...**

EXPRESS PAYROLL can help you in determining what you are worth!!

Let me explain by taking a step back....

As pass-through entities, S corporations generally do not pay entity-level tax on their taxable income. Instead, taxable income is allocated among the shareholders who report the items and pay the corresponding tax on their personal income tax returns.

This S corporation flow-through income has long enjoyed an employment tax advantage over that of sole proprietorships, partnerships and LLCs. This advantage states that a shareholder's undistributed share of S corporation income is not treated as self-employment income. In contrast, earnings attributed to a sole proprietor, general partner or many LLC members are subject to self-employment taxes.

Payroll taxes on employers, employees and the self-employed have increased dramatically over the years. As these employment tax obligations have climbed, the advantage of operating as an S corporation has become greatly magnified. Because S corporation income is not subject to self-employment tax, there is tremendous motivation for shareholder-employees to minimize salary in favor of distributions, which are also not subject to payroll or self-employment tax.

So if the IRS asks what you are worth as an S Corp owner, you need to play by the IRS's rules and be ready to defend your self-employment income. Those rules are helpful but not definitive. You'll need to take a look at the IRS guidelines, combine that with the most recent court cases and lastly do LOTS of research and comparison. As with any other wage determination, you should consider all the available information, and make a reasonable determination that is fully supportable.

It may be hard to believe, but most S Corp owners just give up and guess. The problem with guessing is that without backup for your Reasonable Compensation figure, you have no defense when challenged.

The best advice I can give any S Corp owner is this: Don't procrastinate and pray. If you are just guessing at a reasonable compensation amount then you have no defense if ever challenged. **EXPRESS PAYROLL** has tons of data and salary comparisons from hundreds of businesses just like yours. Call us today and we will help get you on the right track.