Other Tricks of the Trade with S Corps

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The big theme with S Corps is payroll for shareholders, and what constitutes a reasonable salary. Here are some tricks that you can consider to help reduce, lower or avoid self-employment tax, or Social Security and Medicare tax burdens-

A Shareholder Who Has Other W-2 Income

If you have other W-2 income then you are that much closer to reaching your Social Security wage limit. This in itself is not a trick. But, if you have a business partner who doesn't have W-2 income, then you can lop side the salary to the shareholder who does. This is especially helpful with a husband and wife team since office politics won't get in the way. For example, the wife has another job and earns $120,000. Her S Corp salary may be much higher than the husband's since she is closer to the Social Security cap (which is $176,100 for the 2025 tax year).

Huh? Let's say the S corporation had to pay out $70,000 in shareholder wages. The employer portion of Social Security and Medicare taxes are a sunk cost regardless of who is paid. However, if the spouse with outside income is paid and he or she exceeds the Social Security limit for the employee's portion of Social Security taxes, that overage is refunded to the taxpayer.

Of course, salaries must be commensurate with each shareholder's skill level, hours worked, value to the business, etc. but there is some grey area to work with.

Husband and Wife Team with High Income

Let's say a husband and wife couple work in the IT field, and combined they earn $600,000. The S Corp could have just one shareholder, let's say the wife, and the husband is merely a volunteer employee. The wife's salary could be higher than the husband's since she is running the business and is the only shareholder. She would reach the Social Security cap much sooner, but this only works if the husband's salary can remain below the cap.

Let's illustrate this further-

- Option A- Pay husband and wife $120,000 each for a total of $240,000. All $240,000 would be subjected to Social Security and Medicare taxes.
- Option B- Pay wife $200,000 and husband $40,000. Only $176,100 (for the 2025 tax year) plus $40,000 for total of $216,100 would be subjected to Social Security and Medicare taxes. This $31,400 difference in income subject to Social Security and Medicare taxes between Option A and Option B equates to about $4,800 in cash in your pocket savings.

Again, salaries must be commensurate for the work performed. A cool thing about making the wife the sole shareholder is that the business could gain benefits from being minority owned or considered "disadvantaged" although those benefits are becoming rarer.

Be mindful of the possible reduction in future Social Security benefits from a smaller salary.

Put Your Kids on the Payroll

You can also reduce the business’s overall profits by paying your children to work at the office and paying them a wage. You already have to perform payroll, so you can simply add them to the list. See earlier sections of this chapter and our chapter on fringe benefits and tax deductions for expanded information about putting your kids on the payroll.

Family Management LLC

Similar to above, however, the S Corp pays a management fee to another LLC that is reported on Schedule C of Form 1040 (not an S Corp). Since this garden-variety LLC is not an S Corp, Social Security and Medicare taxes do not have to be paid on wages to children. $9,800 must be paid to the child(ren) to break-even on the costs. IRS risk is moderate since the business connection between the S Corp and the Family Management LLC might not be arms-length or in good faith.

You can also read our Reducing Taxes summary article here-

wcginc.com/6177

Income Splitting as Gift

You can make someone in a lower tax bracket a shareholder in your S Corp to give them money. For example, you are taking care of your Mom and need to give her $10,000 each year to help with expenses. You would need to earn $13,000 or more just to be able to write a check for $10,000. However, if your Mom is in a lower tax bracket, as a shareholder she would pay fewer taxes to pocket the $10,000. And when your Mom eventually passes, her ownership can transfer back to you.

Yes, you could justify not paying Mom a reasonable salary since she is not performing any work for the business. She is simply an investor. However, just like paying your children to work for you, there might be a tax savings by having Mom work- her marginal tax rate could be dramatically lower than yours. Good luck with the “Hey Mom. Want a job?” conversation. What goes around comes around.

Just remember, putting family members on payroll is heavily scrutinized. Make sure the basics such as job descriptions, pay rates, time records, etc. are all in very good order. Memories fade, so document it today!

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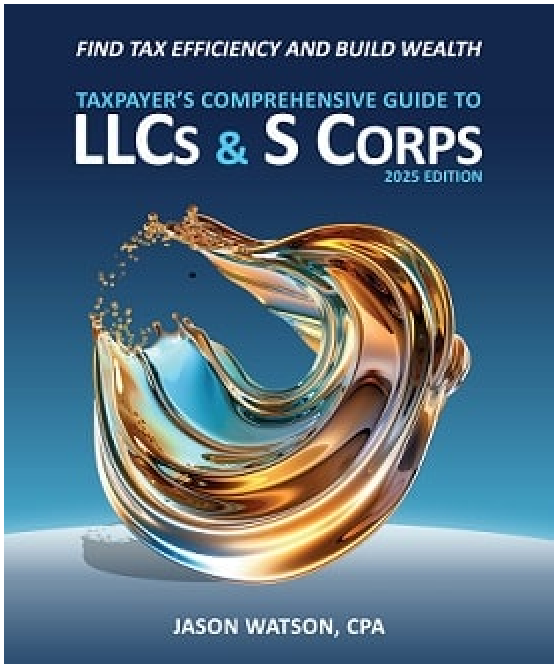

Taxpayer's Comprehensive Guide to LLCs and S Corps 2025 Edition

This KB article is an excerpt from our 420+ page book (some picture pages, but no scatch and sniff) which is available in paperback from **Amazon**, as an eBook for **Kindle** and as a **PDF** from ClickBank. We used to publish with iTunes and Nook, but keeping up with two different formats was brutal. You can cruise through these KB articles online, click on the fancy buttons below or **visit our webpage** which provides more information.[/vc_column_text][vc_empty_space height="25px"][vc_raw_html css=""]JTNDdGFibGUlMjBzdHlsZSUzRCUyMndpZHRoJTNBJTIwNDAlMjUlM0IlMjIlM0UlMEElM0N0Ym9keSUzRSUwQSUzQ3RyJTNFJTBB
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Wanna Talk About Your Small Business?

Please use the form below to tell us a little about yourself, and what you have going on with your small business or 1099 contractor gig. **WCG CPAs & Advisors** are small business CPAs, tax professionals and consultants, and we look forward to talking to you![/vc_column_text][vc_raw_html css=””]JTVCd2NnLWNvbnRhY3QtdXMlNUQ=[/vc_raw_html][vc_empty_space height=”25px”][/vc_column][/vc_row]