Family Management Company

Introduction

Family Management Companies (FMCs) offer a tax-efficient solution for business owners to allocate income to their minor children while minimizing FICA taxes. This paper outlines the process and benefits associated with establishing an FMC, providing a valuable strategy for maximizing tax efficiency.

Qualifications

FMCs serve as an effective tool to avoid unnecessary FICA taxes. To successfully implement this strategy, it is essential to meet certain criteria.

Key Elements

In an S-Corporation, wages for the owner's children under 18 incur FICA taxes, necessitating inclusion in payroll and W-2 filing; establishing a Family Management Company (FMC) can address this. For alternative structures like single-member LLCs or partnerships, paying children through the existing entity is a practical alternative. To ensure compliance, children should receive a reasonable wage based on documented work and hours, with accurate records of tasks performed..

Implementation

1. **Entity Formation:** Obtain an LLC from the state and choose a suitable name for the FMC. Acquire an Employer Identification Number (EIN) from the IRS for a sole proprietorship. This can be done through the IRS website.

2. **Bank Account Setup:** Using the FMC's EIN, establish a dedicated bank account for the company to facilitate financial transactions.

3. **Invoicing Process:** Document the hours worked by the children and the tasks completed. Generate an invoice from the FMC to the S-Corporation for the amount owed.

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4. Payment Processing: The S-Corporation remits payment to the FMC based on the received invoice.

5. Compensation Distribution: The FMC disburses payment to the children via checks, ensuring compliance with all relevant regulations.

Reference:
IRC Section 162