

## Description

In order to avoid paying unnecessary FICA taxes, a Family Management Company(FMC) can be formed. The wages paid to the children from the FMC are not subject to FICA and are not taxable to the children as long the amount paid is less than the child's standard deduction.

## Key Elements

In an S-Corporation, wages for the owner's children under 18 are subject to FICA taxes, requiring payroll inclusion and W-2 filing. To avoid this, a Family Management Company (FMC) must be established. For entities like single-member LLCs or 1065 partnerships, paying children through the existing structure is an alternative, with the necessity to ensure a reasonable wage and document the work and hours.

## Implementation

1. Obtain an LLC from the state.
2. Decide on a name for the FMC, set up an LLC, and obtain an EIN from the IRS for a sole proprietorship. This can be done here: (<https://sa.www4.irs.gov/modiein/individual/index.jsp>). Typically, it would be their last name followed by Family Management Company. For example, Smith Family Management Company.
3. Using the FMC EIN, obtain a bank account.
4. Document the hours worked and the work performed by the children.
5. An invoice is sent from the FMC to the S-Corp for the amount owed.
6. The S-Corp pays the invoice received from the FMC.
7. The FMC writes the children a check.

**Bookkeeping:** On the S-corp's books, the payment to the FMC should be categorized as a "Management Expense or Fee".

**Tax Preparation:** The FMC will file a Schedule C. The income received should be the same amount that was paid to the children so there will not be a profit. Therefore, no taxable income.

The income (the amount received from the S-Corp) will need to be reported on the "Gross Income" line. The expense for paying the children will be reported as "Outside Labor" under "Other Expenses".