

# Shareholder Distribution vs. Payroll

Tax Type	Amount	Status
SOC SEC	90.13	<input type="checkbox"/> G1
MEDICARE	22.50	<input type="checkbox"/> G2
FEDERAL	177.40	<input type="checkbox"/> G3
NY	60.10	
DBL	1.40	
NYC	4.00	

TOTAL WITHHOLDINGS

ADJUSTMENTS

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Operators of certain taxable entities, such as S corporations, have the option of collecting profits from the company as either payroll or shareholder distributions. The Internal Revenue Service expects shareholder-employees to take a "fair and reasonable" wage in the form of payroll. Taking all profits as shareholder distributions is much more beneficial to the business owner, but it can be considered tax evasion.

Pass-through entities are companies that are not taxed directly. Rather, the taxable profits from the company are passed through to the shareholders. The most common forms of pass-through entities are sub-chapter S corporations and limited liability companies. Each owner's share of profits from such a company is reported to him via a Form K-1, and this income is not subject to federal income tax withholding at the corporate level. In addition, this income is not subject to self-employment income for the recipient and is reported on Schedule E of his 1040 tax return. It is beneficial to the shareholder to take as much of his company income as possible in this way, primarily to avoid paying self-employment taxes.

## Payroll

Shareholders of a pass-through entity who perform actual work for the company must generally take a fair wage from the company that is paid to them as an employee. In this way, proper income taxes are withheld, as are Social Security and Medicare taxes. The federal government relies upon these regular payroll tax deposits from companies in order to fund day-to-day government operations. As such, it wants all owner-employees to pay their fair share of payroll taxes. While this does not work out best for the shareholder, the failure to do so can be considered a crime of tax evasion. The determination of a "fair" wage is up to the taxpayer, but it must be reasonably close to the average industry pay for the work being done.

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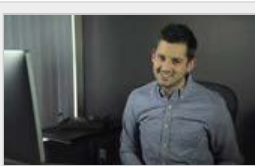
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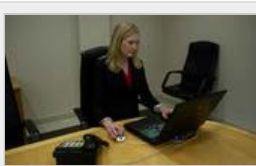
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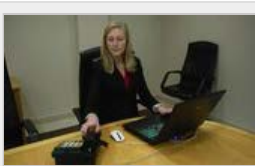
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