

Memo

To: Business S-Corp Clients
From: Krista Piwonka, CPA
Date: December 20, 2016
Re: >2% Shareholders

As an S-Corporation you get many great tax benefits, protections, but also have a few nuances that need to be addressed prior the year end:

Fringe Benefits: The following is only for those of you who have an S-Corporation and are an employee-shareholder with >2% ownership (special rules):

- **Group Term Life Insurance for any amount of Death Benefits:** The premiums are taxable income included in the employee's gross wages and subject to Federal, Social Security, Medicare, and State taxes. (This is not the case for non-shareholder employees if the value of the Death Benefit is <\$50,000. If it is over \$50,000, than it is included as income on their W-2.)
- **Medical Insurance Premiums:** The premiums are taxable income and are included in the >2% shareholder-employee's gross wages and subject to Federal & State income taxes. As long as the medical plan is not discriminatory against other employees, the premiums are NOT subject to Social Security, Medicare, or Federal & State unemployment taxes. (This is not the case for non-shareholder employees.)
- **Personal Use of Employer's Vehicle:** Any and **ALL** employees who have use of a company titled vehicle must have the value of personal use included in their wages. The personal use is subject to Federal, State, Social Security, Medicare, and Federal & State unemployment taxes. The amount of compensation is computed based on a government formula considering the fair market value of the vehicle, the allocation between personal and business use, and a fuel factor.

Reasonable Wage: We've probably talked about this in the past together, but just in case, if you are working for your S-Corporation you are **required** to receive a **REASONABLE WAGE**. There is no concrete IRS definition of reasonable wage, but think about these scenarios before a reasonable wage is issued:

- Service Company has \$100,000 in net income with a 100% shareholder and sole employee. What is a reasonable wage?
- Service Company has \$2,000 net loss with a 100% shareholder and sole employee. What is a reasonable wage?
- Service Company has \$10,000 net income with 100% shareholder and sole employee. What is a reasonable wage?

Without knowing the industry you probably have an idea of what a reasonable wage should be for each of these shareholders. In one situation, \$0 is probably a reasonable wage, while in another \$50,000 is probably a reasonable wage and in the third \$1,000 might be a reasonable wage. If you need help with this, please give me a call and let's discuss your situation.

Board Meeting Minutes: No matter how large or small your S-Corp is you need to have at least one Board meeting each and every year with Board minutes recorded in a Corporate Minute Book. The minutes need to include the date, time, location, who attended, and what was discussed. You should discuss the bank for the year, rent or location for the year, officers for the year, employment changes, tax preparer for the year, and any other important consideration/decision for the business. Let me know if you need assistance with this.