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Three good reasons that you should take a Salary from your Company

First and foremost, if you operate an S corporation and have taken distributions, or draws, from the business, you could raise red flags with the IRS by having no salary. Disclosure of distributions is required on the corporate tax return, so the IRS is aware of payments. The following excerpt was taken directly from an S election acceptance notice received by a newly formed entity:

“We would also like to take this opportunity to inform you of your tax obligations related to the payment of compensation to shareholder-employees of S corporations. When a shareholder-employee of an S corporation provides services to the S corporation, reasonable compensation generally needs to be paid. This compensation is subject to employment taxes. Tax practitioners and subchapter S shareholders need to be aware that Revenue Ruling 74-44 states that the Internal Revenue Service (IRS) will re-characterize small business corporation dividends paid to shareholders as salary when such dividends are paid to the shareholders in lieu of reasonable compensation for services. The IRS may also re-characterize distributions other than dividend distributions as salary. This position has been supported in several recent court decisions.”

Another reason that may apply to you is payment of health insurance premiums. If you are paying for your own health insurance, including your spouse and/or children, you could be missing out on a large tax benefit by not taking salary from your company. Although health insurance payments are deductible on your personal return, they are limited on Schedule A by your adjusted gross income (AGI) and possibly phase-out limitations. Taking salary from your company in an amount greater than or equal to the annual health insurance premiums allows you to deduct them as a full adjustment against other income giving you a greater tax savings.

Lastly, if you have children/dependents under the age of 13 for which you incur child care expenses, both you and your spouse need to have a salary in order to deduct any qualifying payments.

As each situation is unique, please make sure to consult your tax

advisor to ensure that you receive the appropriate tax advice.



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Monthly Tax Tip



Broward County Property Tax Information

Broward County has revamped their website making it easier than ever to find out your account information. You can look up your real estate taxes and/or your business's tangible personal property taxes. The search can be done by name, address, or account number. Not only can you view and reprint the current year's information, but you can get information going back to 2004. The 2009 assessments are currently available online – check it out if you are curious:

Real Estate Taxes - <https://www.broward.county-taxes.com/tcb/app/re/accounts>

Tangible Personal Property - <https://www.broward.county-taxes.com/tcb/app/tp/accounts>

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