

Distribution vs Salary Comparison



Assuming a sole shareholder of an S corporation received no salary from the corporation, but did earn \$100,000 in the calendar year, and took approximate earning in distributions AND assuming and IRS audit, the IRS deficiency notice would be similar to:

Shareholder Distribution (no salary)	Amounts
Distribution Amount	\$ 100,000
Officer Salary	0
Withholding (\$100,000 x 25%)	25,000
FICA (\$100,000 x 15.3%)	15,300
FUTA (\$7,000 x 6.2%)	434
TOTAL TAXES DUE	40,734
Penalties against Total Taxes Due-35% to 100%	0
Failure to file Penalty 25%	10,184
Failure to deposit 10%	4,073
TOTAL COST	\$ 54,991
Minimum effective Tax Rate	55%

Now assume that the appropriate salary would be \$50,000, this would be your actual cost.

Shareholder Distribution & Salary	Amounts
Distribution Amount	\$ 50,000
Officer Salary	50,000
Withholding (\$100,000 x 25%)	25,000
FICA (\$100,000 x 15.3%)	7,650
FUTA (\$7,000 x 6.2%)	434
TOTAL TAXES DUE	33,084
Plus penalties against Total Taxes Due	0
Failure to file Penalty 25%	0
Failure to deposit 10%	0
TOTAL COST	\$ 33,084
Effective Tax Rate	33%
<i>Tax Savings for doing it right!</i>	<i>\$ 21,907</i>

*Actual federal income tax rate varies, and is can be more or less, depending on filing status, itemized deductions, and spousal earnings.

*This worksheet only takes into account federal payroll tax reclassification and does not address state unemployment or workers compensation insurance reclassification costs.

