

## Finding the Money for S Corporations and LLC's

Many owners of S Corporations and Limited Liability Companies pull income from the organization in the form of wages, although their wages are subject to FICA tax at:

- 15.3% on the first \$97,500
- 2.9% on income over \$97,500 (no cap)

These individuals should consider taking part of their wages as a dividend, due to the fact that dividends are not subject to FICA taxes.

The significance of this re-characterization of income is that these people could purchase disability income without any additional out of pocket expense due to the reduction in FICA taxes.

Example:

The business owners are currently taking all of their income in wages:

Wages        \$97,000    @ 15.3%        =        \$ 14,841 in FICA Taxes

What if the business owners took part of their income in dividends and part in wages?

Wages	\$70,000	@ 15.3%	=	\$ 10,710 in FICA Taxes
Dividends	\$27,000	@ 15.3%	=	0 in FICA Taxes
Income	\$97,000		=	\$ 10,710 in FICA Taxes

This is a reduction in taxes of.....\$ 4,131

This \$ 4,131 could be used to purchase Disability Income Insurance without any additional out-of-pocket expense.

This purchase would come under Section 104 of the Internal Revenue Code and the monthly proceeds of the Disability Income Insurance would be tax free to the disabled owner.

### **Note**

In the above illustration, the reduction in Wages part of their income would result in a reduction in Social Security benefits.

Anyone interested in using the concept of re-characterization of income should talk to their tax accountant or tax attorney regarding the IRS rules on paying dividends.