



NOW THAT YOU HAVE AN S-CORPORATION-WHAT YOU NEED TO KNOW

Payroll Requirement:

S-corp owners are required to pay themselves a “**reasonable salary**” through payroll.

Owners may also take **Distributions** from the corporation without additional tax in most situations. There are no rules as to how often or how much these distributions are as long as cash flow affords it. Make sure not to take distributions of any money loaned to the corporation as that would be considered taxable money. If there are several owners of the corporation, Distributions **MUST** be pro-rata to ownership percentage.

Taxation:

The S-corporation owner is taxed on their W-2 income and the Net Income of the S-corporation (total revenues less all corporate expenses including payroll).

There is no tax on the corporate level, although there is at the State level. In California, S-corporations are taxed on 1.5% of net income, or a minimum fee of \$800, every year. Estimated payments are due for these fees, including the \$800 minimum which is always due April 15 of the tax year.

Additionally in California, the S-corporation pays an annual renewal fee of \$25 (called a Statement of Information Filing) due to the Secretary of State on the anniversary of incorporation.

Filing Deadlines:

The S-corporation return is due March 15 of the year following the tax year, with an extended deadline of September 15. Late filing penalties apply for returns filed after the deadline.

Deductions:

S-corporations may deduct all business expenses that are considered “ordinary and necessary” to conducting business.

This includes many common business expenses such as but not limited to:

- Rent
- Utilities
- Wages & Salaries
- Subcontractors
- Office Expenses
- Advertising and Marketing
- Insurance
- Travel and auto

- Repairs and Maintenance
- Supplies
- Depreciation
- Meals (with a business purposes, or during business travel)

Shareholder health insurance should be paid through the corporation as it is a deductible expense

Reimbursements to the shareholder that are deductible are:

- Reimbursement for home office expenses
- Reimbursement for mileage driven for the corporation (when the auto is not already paid for in the corporation)

Items that are specifically NOT deductible are:

- Entertainment of any kind
- Personal clothing (other than uniforms such as scrubs or work boots)
- Personal care such as haircuts, nails, and gym memberships
- Shareholder medical payments (other than health insurance)
- Shareholder disability or life insurance

Pension Plans:

Pension plans vary depending on the type but the main options are:

SEP IRA: is a company contribution only which is based on a percentage of annual wages. ALL employees must receive the same benefit. The percentage can be any number up to 25%. The payment is made to individual employee SEP IRA accounts and is due by the filing deadline (including extensions) of the tax return.

Simple IRA: is a payroll-based plan where employees can choose to defer up to \$14,000 per year (with a catch-up contribution for those over 50 of \$3,000) through payroll. The company must match any employee who defers, and can also choose to make elective contributions, again up until the filing deadline of the return.

401k: is also a payroll-based plan where employees can defer up to \$20,500 per year (with a catch-up contribution of \$6,500) through payroll. The company generally matches up to at least 3% of wages, with the matching payment also due with the filing deadline of the return.

Bookkeeping:

Filing a corporate tax return requires a full set of books and records (usually using financial accounting software such as Quickbooks. You will be required to reconcile the books to bank statements and provide all bank, loan and credit card statements for verification of balances at year end.

Whenever possible, try to separate business and personal expenses and pay all business expenses through the business accounts. It is more difficult to prove a “business purpose” when many personal expenditures are mixed in.

Please contact us when you have questions or concerns as the rules are very intricate. We have tried to cover the main high level questions but situations may vary.