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# CKR Financial Services

## monthly journal

HELPING OUR CLIENTS GAIN THE ADVANTAGE OVER THE COMPETITION

## S-Corps

*I'm getting a lot of questions about S-Corps this tax season. Let's look a little closer at them to make sure you are set up correctly.*

### What is an S-Corp?

Technically, the S-Corp is not a business entity so much as it is a tax election. Unlike LLC's or C-Corp's (which are entities), you cannot begin registration of a new company as an S-Corp. You must first register as a Partnership, LLC, or C-Corp and then file Form 2553 (Election by a Small Business Corporation) to request that the IRS tax you as an S-Corp.

### What are the advantages and disadvantages of becoming an S-Corp?

**Advantages** are: 1- Profits are not taxed against the Corporation. They are "passed through" to the shareholders' individual tax returns, avoiding "double taxation" like a C-Corp. 2- Share-holders are not typically personally responsible for business debts. 3- Salaries are subject to payroll taxes, while distributions are not subject to self-employment taxes as with an LLC.

This does not come without some **disadvantages**, however.

- 1- S-Corps must adhere to stricter operating procedures.
- 2- They cannot have more than 100 shareholders.
- 3- They can issue only one class of stock.
- 4- non-resident aliens and other specified entities cannot be shareholders.

### What type of operating procedures are you talking about?

Ongoing compliance requirements include: 1- Holding annual meetings AND keeping minutes. 2- Filing IRS Form 1120-S and issuing K-1 forms to shareholders. 3- Following proper payroll processes and paying payroll taxes on time. 4- Maintaining records of business transactions and corporate formalities

### What is the profit threshold I need to be at to turn into an S-Corp?

While there is no definitive number that applies to everyone, consider when you reach enough profit to justify the costs of compliance and the



reasonable salary requirement. A general rule of thumb would be if the business has a net income (not gross) that significantly exceeds the owner's salary, it's time to consider registering as an S-Corp. Also, It's important to keep in mind that one can't just set an arbitrary number for the owner's salary. It must be a **reasonable compensation** comparable to what is paid for similar work in a similar industry. (See the next page for additional guidance on Reasonable Compensation).

Before deciding to convert to an S-Corp, business owners should carefully weigh the financial benefits against the tax implications and additional compliance responsibilities. At CKR Financial Services, we can help you decide if this is right for you.



Memorial Day is fast approaching. A day to honor the fallen, reflect on the lives lost who died of military service, and express gratitude for the sacrifices of others. While it is always good to be grateful for our men and women in uniform, this special day is for those we remember who are no longer with us. Memorial Day observed May 26, 2025.

# S-Corps and Reasonable Compensation

*What you need to know about how to pay yourself*

Once a business has registered with the IRS to be taxed as an S-Corporation, the IRS requires the shareholders who perform significant services to the business be paid reasonable compensation. In other words, as a small business owner, if you work for your S-Corp, you **MUST** pay yourself reasonable compensation. What is that, exactly?

**Reasonable Compensation** refers to the salary an S-Corporation owner (and sometimes employees) would expect to receive for the work they perform in the business. It's an important aspect of compliance with IRS regulations, ensuring that business owners don't avoid payroll taxes by taking all distributions instead of salary.

There isn't a specific formula to determine the salary the owner/shareholder should be charged. It is more of an examination of industry standards, duties & responsibilities, time & effort, and company profits all mixed together to land on an appropriate figure for compensation.

Industry standards weigh heavily in the determination of reasonable compensation. Different industries have different salary norms, so compensation should be looked at against similar businesses in the industry. Geographic areas also weigh in on wage determination. The actual duties or work that the owner or employee performs are a factor in wages. More complex functions may warrant higher compensation. The hours put into the

business, the determination of what one would pay someone else to perform the same job... All of the factors above are considered when deciding remuneration.

Company profits and stability are also contemplated during this time. You can't pay out salaries that negate your profits; they must be within the profit margin.

CKR Financial Services can help you determine reasonable compensation levels for you if you are struggling to determine this wage yourself. With our knowledge of taxes, our experience with the IRS, and software that assists in determining industry standards for compensation, we are set to assist you on this journey. The **WORST** thing you could do, is to **NOT** pay yourself because the IRS is on the lookout for those S-Corps that are not running payroll or underpaying themselves. Set an appointment with us to determine what is reasonable compensation for you.

Additional information on S-Corps was covered in our 2023 Newsletter. Be sure to use our website as an additional resource. Go to: [ckrfinancialservices.com](http://ckrfinancialservices.com), use the Resources pull-down menu, Newsletters, 2023, and look at the May newsletter.

"It's not how much money you make, but how much money you keep, how hard it works for you, and how many generations you keep it for."

-Robert Kiyosaki,  
businessman

*"If you don't value your time, neither will others. Stop giving away your time and talents. Value what you know and start charging for it."*

*-Kim Garst,  
marketing strategist*

"Working because you want to, not because you have to, is financial freedom."

-Tony Robbins,  
American Author

"Your economic security does not lie in your job; it lies in your own power to produce - to think, to learn, to create, to adapt. That's true financial independence. It's not having wealth; it's having the power to produce wealth."

- Stephen Covey,  
educator

