

S corporation Wages and how they relate to Social Security Benefits

As an S corporation owner, you may feel inclined to take no wages or a very low wage from your corporation, thus saving you the social security/Medicare tax on your wage. Some of you believe Social Security will not be a viable retirement option by the time you retire. You must take a reasonable wage, or risk an IRS audit that reclassifies all of your profit as subject to social security and Medicare tax.

These are other important considerations when determining your S corporation wage:

1. If you should die, your survivors (spouse and/or children under a certain age) will not receive any social security survivor's benefits if you did not take any wages from your corporation (this statement assumes you had no other wages from previous employers). If you pay yourself low wages, the monthly survivor benefit will be very low. Social Security uses your earnings record to determine the amount of the monthly survivor's benefit. Low earnings mean a low social security benefit for your survivors. So while you may not be concerned with a low monthly social security benefit, upon your retirement, you need to consider your survivors if you die leaving behind a spouse and children still in school.
2. If you should become disabled, and qualify for social security disability insurance (SSDI), your earnings records is used to establish the monthly disability social security benefit. Low wages will be reflected in your Social Security Earnings record that determines this monthly payment. There is also a requirement of so many years of work to qualify for this program.

For more information on the above, please visit the following sites:

<http://www.ssa.gov/pubs/EN-05-10084.pdf>

<http://www.socialsecurity.gov/pubs/EN-05-10029.pdf>