

S-Corp Success for Wellness Entrepreneurs: Navigating Compliance and Maximizing Tax Savings

Expert tips for wellness entrepreneurs on S-Corp compliance, maximizing tax savings, avoiding pitfalls, and unlocking financial growth.

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Introduction

Are you a wellness entrepreneur or retailer operating an S-Corp, or considering making the election for your LLC?

If so, this e-book is for you! Navigating the complexities of S-Corp compliance can be challenging, but with the right knowledge and guidance, you can avoid costly mistakes and make the most of your tax savings.

Wellness entrepreneurs often face many challenges when operating a business, and operating an S-Corp complicates things a little more.

Our goal is to help you maximize tax savings while staying on the right side of the IRS.

Dive in to learn actionable steps that will keep your wellness business financially healthy and compliant!



Common S-Corp Pitfalls

- Inadequate compensation for S-Corp owners
- Improper loans to the S-Corp
- Late filing or failure to meet hidden requirements
- Overlooking community property state rules for spouses
- Ignoring voting and non-voting stock options
- Incorrect handling of health insurance reimbursements
- Poor documentation for reimbursements

01

**Ensure You Pay
Yourself a
Reasonable
Compensation**

Determining the right salary for an S-Corp owner can be challenging.

If the IRS determines you're underpaying yourself, you could face additional taxes, penalties, and interest. It's crucial to know how to determine the appropriate salary as an S Corp owner to avoid additional costs.

To calculate a reasonable salary, consider these three approaches :

Market Approach

To establish a fair wage, compare your position with similar roles at comparable companies. The question to answer is, "What would be the compensation for this position, held by a nonowner in an arm's-length employment relationship, at a similar company?"

Income Approach

This approach is only suitable when there's a fair market value for the company each year. The market approach is preferred since it doesn't rely on this information.

Cost Approach

Break down your employee activities into components, such as management, accounting, finance, marketing, advertising, engineering, and purchasing. This approach helps determine a fair wage based on each component's value.





Pension

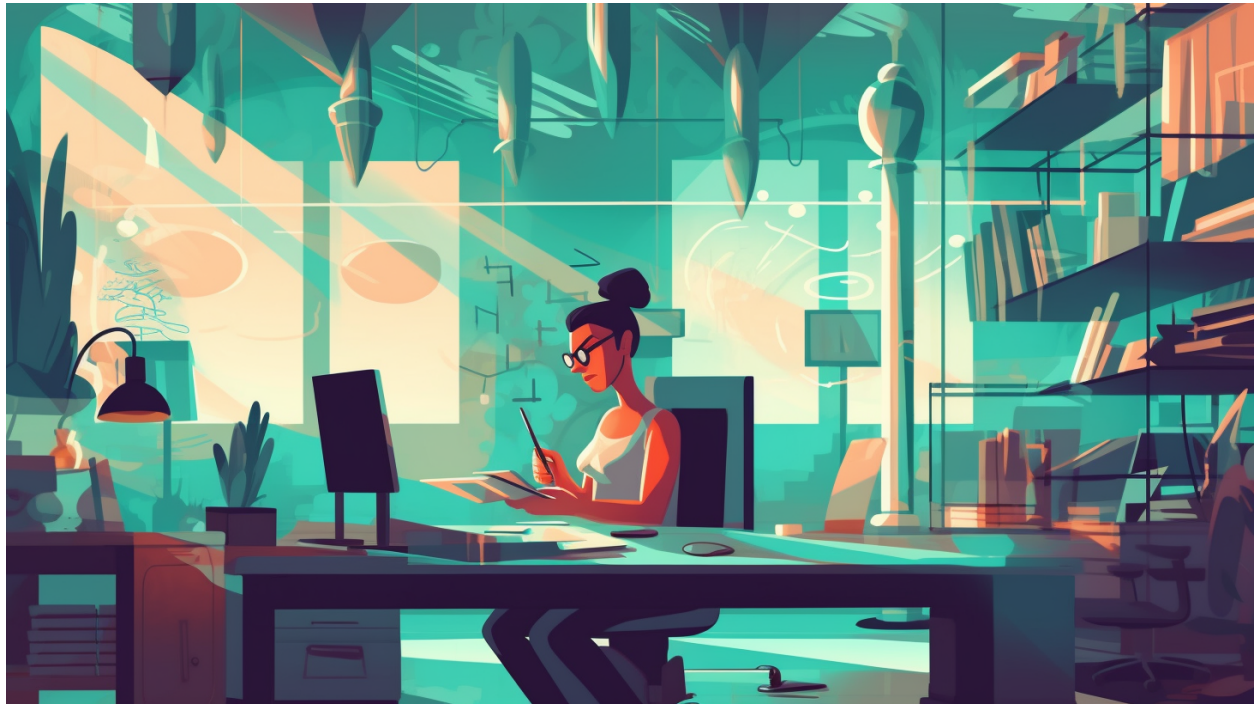
As an S Corp owner-employee, you can contribute to a SEP, SIMPLE IRA, or 401(k) plan to reduce payroll taxes and increase savings. Your S Corporation compensation determines the amount that your S corporation can contribute to your retirement plan.

Section 199A Deduction

The S corporation's net income passed through to you, the shareholder, can qualify for a 20% Section 199A tax deduction on your Form 1040.

Audit Protection Tips on Reasonable Compensation:

- Document your salary in corporate minutes during company meetings.
- Keep records and information that support your salary as reasonable.



02

**Avoid Risky Loans
That Could
Jeopardize Your S-
Corp Status**

Managing your finances is crucial for your business's success. One aspect to be aware of is making loans to your S-Corp.

If you make a larger loan (typically exceeding \$10K) and it's not structured properly, the IRS may treat it as stock, potentially affecting your S-Corp status.

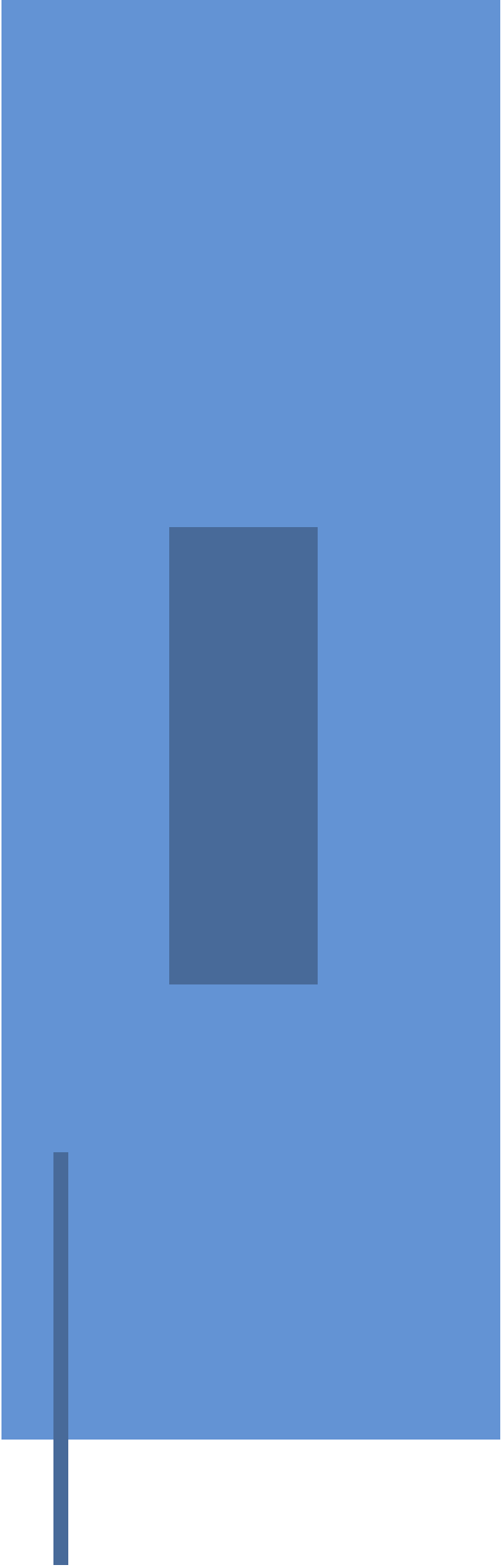
To prevent this issue and maintain full control over your wellness business, ensure your loan meets the following conditions:

- Put all loan agreements in writing
- Establish a firm repayment deadline (avoid balloon payments)
- Ensure the loan cannot convert into equity or stock
- Set a fixed interest rate for the loan

By adhering to these guidelines, you can confidently make loans to your S-Corp without jeopardizing its status, ensuring the continued growth and success of your wellness enterprise.

03

**Understand the
Lesser-Known Rules
for S-Corp Success**



Navigating the world of S-Corps can be challenging.

To help you succeed, we've highlighted some lesser-known rules and issues you should be aware of:

Involving your spouse in a community property state:

- If you live in a community property state, you must include your spouse in your S-Corp filing.
- Your spouse must consent, or the election is not valid.
- If your spouse is a non-resident alien, the election is canceled.

Meeting the basic requirements when submitting your election:

The IRS has strict requirements for S-Corp elections. Ensure you meet all the basic requirements when submitting, or the IRS may revoke your status.

- Domestic corporation status
- Fewer than 100 shareholders
- Shareholders limited to individuals, estates, and specific trusts
- US residency for all shareholders
- Only one class of stock allowed*

*S-Corps can only have one class of stock, but there's a catch:

If the only difference between stocks is voting rights, the IRS doesn't consider them separate classes.

This allows you to distribute profits without giving up control over corporate decisions.

Special issues when converting from a C corporation to an S corporation:

- Built-in gains tax: Be prepared for possible tax consequences if your company's value exceeds its basis.
- Loss of tax attributes: Loss carryovers and minimum tax credits may not be allowed in an S-Corp. Consult with your accountant before making the change.
- LIFO recapture: If your C corporation used the LIFO method for inventory accounting, you might face a recapture tax during inventory conversion.
- Passive investment income: If your previous C corporation had accumulated earnings and profits, and over 25% of your S-Corp's income comes from passive investment income, you may face a higher tax. Seek professional advice on how to address this issue.

Understanding these lesser-known rules can help you maximize the benefits of operating as an S-Corp and avoid potential pitfalls. By staying informed and proactive, you'll be better equipped to grow your wellness business successfully.

04

**Safeguard Your S-
Corp Health
Insurance Deduction**

As an S-Corp owner, it's crucial to protect your health insurance deduction.

To do this, you must ensure the S-Corporation's payment or reimbursement of health insurance for you (the shareholder-employee) and your family is properly documented.

Here's how you can achieve this:

1. The S-Corporation must establish a health insurance plan for you, the owner, using one of these methods:
 - The S-Corporation pays the premiums for a health insurance policy covering you (an owner-employee with more than 2% ownership) and your family, if applicable.
 - You, the owner-employee with more than 2% ownership, pay the premiums and provide proof of payments to the S-Corporation, which then reimburses you for the premiums.

2. The S-Corporation must include the health insurance premiums on your W-2 form. This income is not subject to payroll taxes (Social Security and Medicare).
3. Finally, you (the owner-employee with more than 2% ownership) can claim the health insurance deduction on Form 1040, provided you qualify for that deduction.



For Small Employers: QSEHRA for Rank-and-File Employees

As a small employer with fewer than 50 full-time employees or full-time equivalents, your S-Corporation is not required to provide health insurance benefits to rank-and-file employees (the regular, everyday workers who aren't in charge). However, if you decide to offer medical benefits, it's crucial to avoid the \$100-a-day penalty for non-compliance.

To stay compliant, do not reimburse rank-and-file employees for individually purchased health insurance. Instead, use the Qualified Small Employer Health Reimbursement Arrangement (QSEHRA) to reimburse them for a portion of their individually purchased health insurance.

If you plan on using QSEHRA with your employees, it's essential to establish your plan in advance.



05

**Properly Document
Reimbursements in
Your S-Corp**

It's essential to properly document reimbursements in compliance with IRS regulations when operating an S-Corp.

Failing to follow the rules of an accountable plan can turn tax-free reimbursements into taxable wages.

Avoid this costly mistake by implementing these simple steps:

Set up an accountable plan for your business

- Utilize Federal per diem rates for travel expenses without needing to substantiate actual amounts spent
- [Click this link to access a sample accountable plan](#)
- Check current federal per diem rates at www.gsa.gov

Require adequate substantiation for reimbursements

- Submit an expense report, diary, log, or receipts within a reasonable amount of time after incurring the expenses
- [Click this link to download a sample expense report](#)
- Ensure documentation includes the following information:
 - Amount and business purpose of the expense
 - Time and place of travel or activity
 - Date and description of business gifts, along with the relationship to the recipient



Adhering to these guidelines will help your S-Corp stay in compliance with IRS reimbursement regulations, allowing you to optimize tax savings and build a strong financial base for your business.

Conclusion



We've covered the basics of S-Corp requirements, common pitfalls, and actionable strategies for success. However, there's always more to learn and implement.

By partnering with our expert team, we can help you delve deeper into customized tax planning and implementation strategies tailored specifically for your wellness business.

Our goal is to empower you to make informed decisions, avoid costly mistakes, and take full advantage of the tax benefits that come with operating an S-Corp.

Congratulations on completing this e-book and taking the first step towards maximizing your tax savings and ensuring compliance as a wellness entrepreneur or retailer operating an S-Corp.

Ready to take the next step and explore how we can help you achieve your financial goals?

Reach out to us today to inquire about our consulting and coaching services. Let's work together to ensure the continued growth and success of your wellness enterprise!

Get in touch now: palominocpa.com/contact