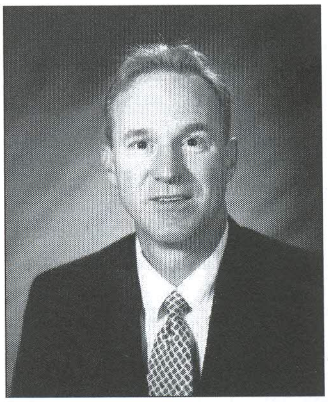
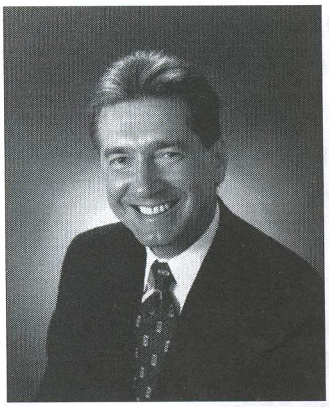
Payroll Taxable Wages Of An Owner And Employee Of An S Corporation



Mark P. Altieri is a member of Wickens, Herzer, Panza, Cook & Batista's Business Organizations & Tax Department and special tax counsel for the Firm. He is also a tenured Associate Professor of Accounting at Kent State University, an Ohio Certified Public Accountant, a Certified Management Accountant, a Certified Financial Planner, and holds the American Institute of Certified Public Accountant's Personal Financial Specialist designation.



William P. Prescott, E.M.B.A., J.D., is also a member of Wickens, Herzer, Panza, Cook & Batista. He is a member of the Editorial Board of The Practical Tax Lawyer.

Kelly A. VanDenHaute is a member of Wickens' Business Organizations & Tax Department whose practice is focused on employee benefits, non-profit, tax-exempt entities, charitable organizations, and general corporate law. Ms. VanDenHaute is a member of various professional bar associations and sits on the board of the Firelands Association of the Visual Arts and the Heart of Ohio Council, Boy Scouts of America.

By Mark P. Altieri, William P. Prescott, and Kelly A. VanDenHaute

Be careful about payroll tax avoidance situations — IRS Is looking for them.

LAY PEOPLE AND TAX PROFESSIONALS alike generally perceive S corporations and partnerships to be similar tax "flow-through" entities. That is, the S corporation or partnership is not the taxpayer; rather, tax items generated at the entity level are flowed through to the owners via a Schedule K-1 and are attended to only at the owners' level for tax purposes.

Despite the fact that S corporations and partnerships and their respective owners are generally treated alike for federal tax purposes, many meaningful distinctions do exist between the tax treatment of S corporations and partnerships. For a more detailed study of the tax differences between partnership entities and S corporations, *see* Altieri and Cenker, *Partnerships, LLCs, and S corporations: Selected Tax Issues,* 72 CPA Journal 40-47 (October 2002); and Altieri, *Considerations in Determining Whether to Elect S corporation or LLC Status,* 27 Tax Adviser 547-553 (1996).The topic of discussion in this article focuses on only one of these distinctions — the varying payroll tax treatment afforded to operating income flowing through to partners in a partnership and shareholders of an