

## Laura Cross

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## Meet the Trainer



Keep More Commissions with Tax Breaks



# Lesson 4: Part 1

## Hiring Relatives & Medical Reimbursement Plans

### **Strategies for Employing Your Spouse in Your Schedule C Business**

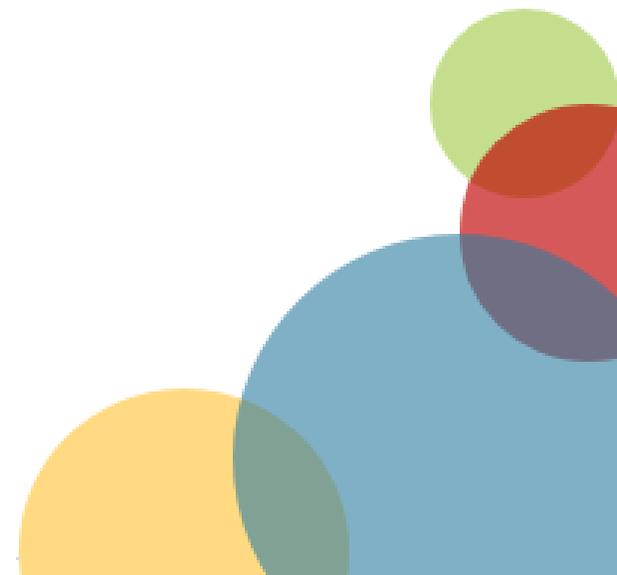
#### **Strategy 1: Set the Stage for Your Spouse's Fringe Benefits by Employing Your Spouse in Your Sole Proprietorship, But Paying the minimum Wage**

**Wages subject to social security taxes:** Wages paid by husband to wife or vice versa are subject to Social Security (SS).

**Pay lowest reasonable wage:** There's no benefit in trying to qualify for extra SS retirement monies by paying extra SS taxes; accordingly, pay your spouse as little as legally possible.

\*Structure this with your accountant. Reasonable wage factors on next slide.

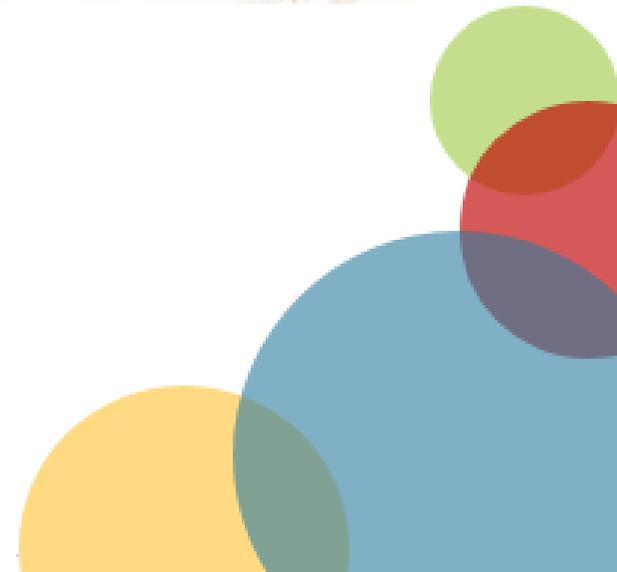
**Bona fide employment:** The employment of your spouse must be bona fide. IRS will start to question whether your spouse did any work at all. You must have evidence of actual work to withstand IRS scrutiny.



## Reasonable wage factors:

10 factors IRS uses to examine wages for reasonableness:<sup>29</sup>

- Duties performed
- Volume of work
- Type and amount of responsibility
- Complexity of work
- Amount of time required for work
- General cost of living in the area
- Ability and achievements of the employee
- Comparison of amount of salary with amount of business income
- Your pay policy regarding all employees (if there are others)
- Pay history of the employee





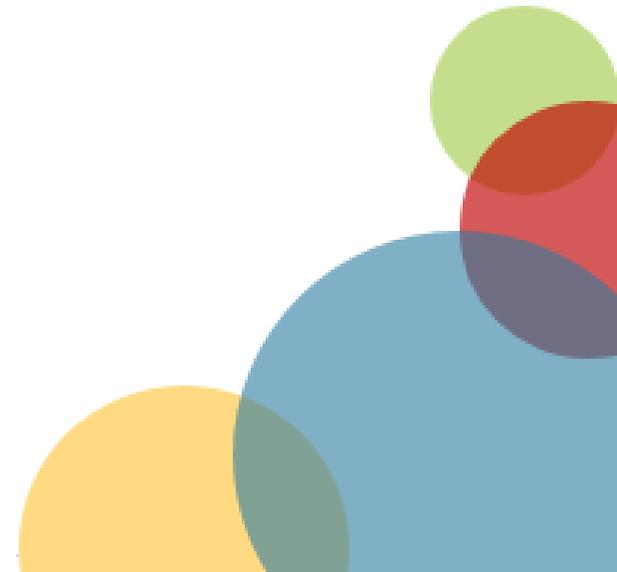
## **Strategy 2: Take Advantage of Your Spouse's Employment with a Plan to Pay the Medical Expenses of Your Employees and Their Families**

**Pay for insurance:** You (Sole Proprietor) can pay for medical insurance to cover your employees & their families if they legitimately work in the business. The deduction is 100% starting in 2003. S Corps. Cannot deduct medical premiums for stockholders who own 2% or more. However, medical premiums incurred by S Corp. are deductible on the individual owner's tax return as an adjustment to income.

**Limitations:** Deductibility of medical insurance premiums for self-employed tax payers does have limitations.

- limited to your net income from business/earned income from business that pays the medical insurance (If you have a loss, cannot deduct premiums).
- Cannot deduct any premiums if you were covered in part by a subsidized employer's plan (employer pays 50% of premium, you pay remaining 50%, you cannot deduct that portion as an adjustment to gross income.

You may be able to deduct your portion as an itemized deduction.





## **Strategy 2 Continued:**

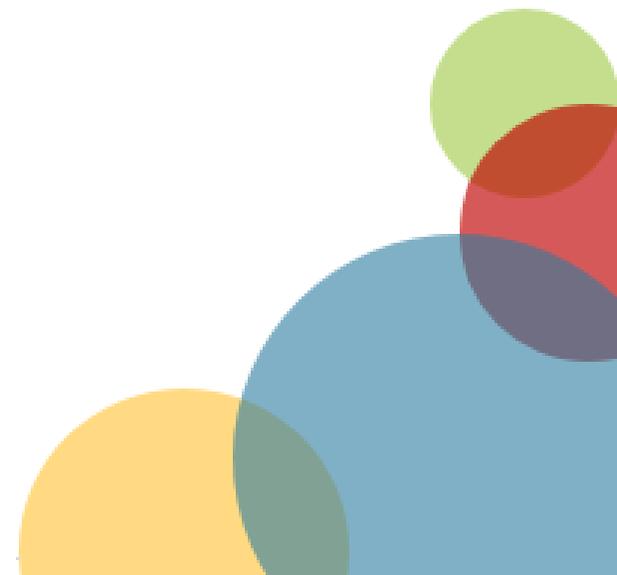
**Note:** As a result of the Affordable Healthcare Act, if you have employees covered under a Self Insured Medical Plan, you will need to also pay for medical insurance or there could be a penalty.

**Pay for coinsurance & deductible or have them exempt due to being covered under spouses plan:** and for other expenses that are not covered by insurance (i.e. over the counter medications).

**100% reimbursement of medical expenses:** Design your medical plan to reimburse employees for every penny of otherwise deductible medical expense.

Some could be paid by insurance & some directly by proprietorship. However, it must be nondiscriminatory & you should keep the plan in force for at least 3 years (Be sure to keep receipts for all medical expenses that will be reimbursed).

**Note:** Total wages & potential payout of the Self Insured Medical Reimbursement Plan must constitute a reasonable wage for hours worked. **See accountant/financial planner to evaluate the maximum limits possible.**



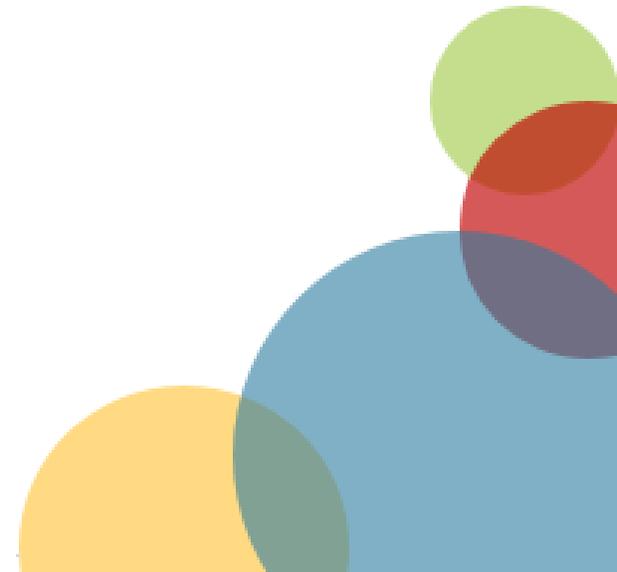


## Strategy 2 Continued:

**Caution:** Affordable Health Care Act can cause penalties for having a self insured plan (a.k.a. – Health Reimbursement Arrangements – HRA). Ex. If you didn't cover employees & they didn't elect out due to other coverage, the plan could result in significant excise tax penalties.

However, new rules provide avoidance of AHA penalties for HRA contributions up to \$4,950 for employee coverage, or \$10,000 for family coverage. But, there are currently proposals to eliminate portions of the AHA so you may not need to worry about these limitations.

2017 HSA Limits	Self Only	Family
Minimum Deductible	<b>\$1,300</b>	<b>\$2,600</b>
Annual Out-of-Pocket	<b>\$6,550</b>	<b>\$13,100</b>
Maximum Contribution	<b>\$3,400</b>	<b>\$6,750</b>
Catch-Up Contribution	<b>\$1,000</b>	<b>\$1,000 ea</b>



## Tax Free Fringe Benefit:

1. Either hire spouse or other family members in a self-employed business or form a regular C corporation.
2. Draft up self-insured medical reimbursement plan. You can go to a Tax Lawyer, it costs approximately \$700 (one-time fee), but the fee is tax deductible.
3. Make spouse or family member primary employee on the plan.
4. If you hired spouse or you are a C Corp., select family coverage.
5. Reimburse family members for medical expenses not covered by insurance. Ex. – Co-pays, drugs, dental, etc. This can be done in addition to a flexible spending account.
6. Meet with accountant to set up yearly per employee maximum payout under the plan.

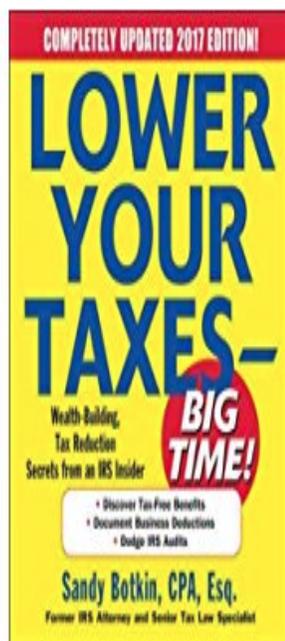


## Sandy Botkin's Book: Lower Your Taxes – Big Time!

(This should help fill in any gaps from this training)

Available on Amazon for less than \$10.

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Lower Your Taxes - BIG TIME! 2017-2018 Edition: Wealth Building, Tax Reduction Secrets from an IRS Insider Dec 5, 2016

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