



To: Clients & Friends Of Pro@ctive CPA
From: Mark Wyssbrod, CPA – Managing Member
Date: January 2, 2009
Re: Being Prepared For High Income Earner and S-corporation Changes

Being Prepared For High Income Earner and S-corporation Changes

Due to the dire federal deficit it will be more than likely that Congress will be forced to increase taxes. During the past several years tax updates and Ways and Means Committee (Congress) reports indicate several changes high earning income professionals and s-corporations should be aware of. The chances of some of these changes are now becoming more realistic.

High Income Earners

High income earners have a two front battle on their hands. First, social security which is not limited to the first \$102,500 in wages may see the income limited taken off. This means the social security tax of 6.2% would be applied to all wages. Additionally, the business would have to match an additional 6.2% (a total of 12.4% if you are both the employee and employer). Second, income tax rates for higher brackets are more than likely to increase by 2-3%.

The two front battle of potential tax increases adds up to 8.2% at a minimum. This is a huge potential increase. We recommend that you immediately change your lifestyle and budget to incorporate these changes. If the changes do not come to reality you will have savings and if the changes do come to reality you will be use to leaving within your means.

S-corporation Changes

S-corporations have been targeted by Congress during the past several years. First, Congress (through the IRS) has targeted compliance issues for S-corporation and now they are targeting the social security and Medicare savings from S-corporations. Congress is targeting professional service companies such as doctors, attorneys, accountants, consultants, etc. For these types of s-corporation Congress wants the net income to be subject social security and Medicare (as partnerships are subject to). The increase in tax could be as high as 15.3%. The increase in social security and Medicare tax is 12.4% for social security, up to the social security limits (see above regarding high income earners) and 2.9% on all earnings for Medicare.

Summary

Most forms of taxes are more than likely to increase over the next several years. If the aforementioned potential adjustments affect you we recommend that you begin making



adjustments to your personal finances and/or business to be prepared for these changes. Please contact us should you want to discuss how these taxes directly affect your situation.

IRS Circular 230 disclosure: To ensure compliance with requirements imposed by the IRS, we inform you that any U.S. federal tax advice contained in this communication (including any attachments) is not intended or written to be used, and cannot be used, for the purpose of (i) avoiding penalties under the Internal Revenue Code or (ii) promoting, marketing or recommending to another party any transaction or matter addressed herein.