

FREE MONEY

The potential for "free money" occurs when the corporation can pay for something on behalf a shareholder-employee that is deductible by the corporation but nontaxable to the shareholder-employee. Many shareholder-employees of our corporate clients are in a 40-45 percent combined federal and state tax bracket. Therefore, any compensation that can be taken out as "free money" results in a tax savings of that 40 to 45 percent. The categories of "free money" permitted by the Internal Revenue Code break down as follows:

1. Current Free Money.

1.1 Health Insurance. The corporation can pay health insurance premiums for the shareholder-employee and the shareholder-employee's dependents. This is totally deductible by the corporation and is a significant benefit as full family health insurance premiums are nearing \$1,000 per month.

1.2 Dental Insurance. The same deduction holds true for dental insurance, which is approximately \$100 to \$150 per month.

1.3 Un-reimbursed Medical and Dental Expenses. The corporation can deduct *all* uninsured medical expenses. (If the individual shareholder-employee attempted to deduct the expenses for him/herself, the deduction would be limited to those expenses that exceed 7½ percent of the individual's adjusted gross income. Thus, medical and dental expenses are basically nondeductible if paid by the shareholder-employee him/herself.) These expenses include uninsured medical, (including eye care) dental, orthodontia, mental health, counseling, prescriptions, chiropractic, and physical therapy.

1.4 Personal Liability Umbrella Insurance. The corporation can reimburse the shareholder-employee for the shareholder-employee's personal umbrella insurance if the corporation requires the shareholder-employee to maintain such insurance.

1.5 Mileage Reimbursement. The corporation can reimburse the shareholder-employee 48.5 cents per mile for the business use of the shareholder-employee's vehicle. It is quite common for shareholder-employees to come up with \$2,000 to \$3,000 in un-reimbursed mileage expenses each year. This would include mileage to continuing education, BME, and IPA business. It would also include other business mileage traveled on behalf of the corporation such as trips to the attorney's office, the accountant's office, the bank, or the post office.

1.6 Continuing Education, Dues, and Subscriptions. The corporation can pay for all continuing education, professional organization dues, and subscriptions of the shareholder-employee.

1.7 Use of Residence for Corporate Business. Often, a shareholder-employee hosts functions at his or her home for either staff or referral sources. The out-of-pocket costs

of such functions are fully reimbursable by the corporation, of course, but the corporation also can lease the residence from the shareholder-employee. Thus, if there was a function of the shareholder-employees at one of the shareholder-employee's homes, then the corporation could reimburse the shareholder-employee about \$250 as rent for the home. That payment would be deductible by the corporation and free money to the shareholder-employee.

1.8 Cell Phones. Naturally, the use of cell phones for corporate business would be deductible.

1.9 Costco Card. The annual membership fee for a Costco card would be free money if used for corporate business.

1.10 Home Computer. The corporation may purchase home computers and office furniture for the corporation that could be used by the shareholder. In addition, the corporation can pay for the monthly fees charged by the internet service provider. This would include a PDA (palm pilot).

2. Deferred Free Money. This relates to disability insurance. The shareholder-employee should pay for the shareholder-employee's disability insurance him/herself for the policy year. At the end of the policy year, if the shareholder-employee has not become disabled, then the shareholder-employee should seek reimbursement from the corporation. Then, if the shareholder-employee should become disabled, the disability income would be tax-free to the shareholder-employee. However, if the shareholder-employee were not disabled, the disability premium payments are free money when reimbursed.

3. Professional Fees Free Money. Accounting and legal expenses paid by the shareholder-employee are usually nondeductible. However, if these payments are paid by the corporation, they become free money. Thus, many corporations pay a portion of the personal accounting and legal expenses of its shareholder-employees as a fringe benefit for those shareholder-employees.

4. Nondeductible Free Money. Most corporations are in a 20 percent tax bracket—20-25 percent lower than that of most shareholder-employees. Thus, even nondeductible expenses such as country club dues and athletic club dues are better paid by the corporation if related to business activities. Accordingly, most corporations pay country club dues and athletic club dues on behalf of the shareholder-employee to achieve the 20 percent tax savings.

Feel free to contact Derek D. Simmons or Donald R. Laird at Watkinson Laird Rubenstein Baldwin & Burgess, P.C., at (541) 484-2277 in Eugene, (541) 673-5528 in Roseburg, (541) 923-8767 in Redmond, or (541)757-1365 in Corvallis for further information.

FREE MONEY CHECKLIST

- 1. Insurance.**
 - 1.1 Health Insurance \$ _____
 - 1.2 Dental Insurance \$ _____
 - 1.3 Disability Insurance \$ _____
 - 1.4 Long Term Care Insurance \$ _____
- 2. Un-reimbursed Medical and Dental Expenses, Including executive Physicals** \$ _____
- 3. Personal Liability Umbrella Insurance** \$ _____
- 4. Mileage Reimbursement** \$ _____
- 5. Continuing Education, Dues, and Subscriptions** \$ _____
- 6. Use of Residence for Corporate Business** \$ _____
- 7. Use of the Home Office.**
 - 7.1 Home Computer/Office Furniture \$ _____
 - 7.2 Second Phone Line at Home, Cell Phones \$ _____
 - 7.3 Monthly Fees to Internet Service Provider \$ _____
 - 7.4 Utilities and Insurance \$ _____
- 8. Costco Card** \$ _____
- 9. PDA (palm pilot)** \$ _____
- 10. Global Positioning System** \$ _____
- 11. Digital Camera** \$ _____
- 12. Corporate Strategic Planning Meeting (Retreat)** \$ _____
- 13. Individual Accounting, Individual Legal Expenses** \$ _____
- 14. Country Club Dues, Athletic Club Dues** \$ _____
- 15. Personal Security Device** \$ _____

