

**PROPOSED PAYROLL TAX ON "SERVICE REVENUE"
FOR NON-ESOP OWNED S-CORPS.**

It is the intent of policymakers to extend soon-to-expire tax provisions, and one of the proposed plans to pay for these extensions is by expanding the application of payroll taxes on S corporations.

This plan was included as part of a larger tax proposal that former Ways & Means Committee Chairman Charles Rangel previously advanced. Here's how it would work:

For companies that are primarily engaged in service businesses*, owners of the S corporation **other than the ESOP** would become subject to new self-employment taxes on the full distributive share of any income attributable to services. Previously, the tax only applied to salary and compensation.

If this proposal advances, the taxes would also apply to profit distributions and any other income of the enterprise that is attributable to the owners. This provision represents a payroll tax increase on many taxpayers that are already fully complying with the law. Small and private business community advocates worry that it may set the stage for future efforts to apply payroll taxes to all income in all S corporations.

Some Congressional estimates show that this tax proposal would raise \$9.4 billion over a 10 year span, making it very attractive to policymakers who are short on funds but looking for ways to help them continue expiring tax benefits for a wide range of interests.

If your company is not currently 100% ESOP owned and/or you derive part of your revenues from activities that may be construed as services, your company could be impacted. If you have been thinking about becoming a 100% ESOP but haven't done anything yet, you may want to consider proceeding. Contact an ESI team member today to discuss your options.

** Service businesses include everything from engineering and architecture to accounting and farming.*