Reeder CPA Group

Strategic Tax, Accounting, & Advisory

Topic:

Is $100,000 in income worth the same for a business owner as it is for a W-2 employee?

How the Tax Code Favors Business Owners Over W-2 Employees

W-2 Employee Income

- **No Business Expense Deductions:** Corporate employees can't deduct work-related expenses, such as home office or vehicle use, so they receive a net paycheck with all taxes withheld upfront.
- **Paid Last:** Employees do the work, then receive a net paycheck, with taxes and payroll deductions taken first. This leaves little flexibility for adjusting taxable income throughout the year.

Business Owner Income

- **Income Before Taxes:** Business owners receive gross revenue and can deduct qualified expenses, paying taxes only on the net income after deductions.
- **Discretionary Deductions:** Business owners can reduce taxable income through ordinary and necessary expenses, such as:
  - *Home office*
  - *Business mileage on personal vehicles*
  - *Cell phone for business use*
  - *Retirement contributions*
  - *Equipment and asset depreciation*
- **Salary and Distributions (S Corp):** By structuring as an S Corporation, business owners can pay themselves a reasonable W-2 salary while taking the remaining profit as distributions, which aren't subject to self-employment taxes.
- **Timing Control:** Business owners can further influence taxable income through strategies like accelerating expenses and deferring revenue, making tax management more flexible and strategic.

Michael Reeder, CPA

Michael Reeder is the Managing Partner at Reeder CPA Group, specializing in strategic tax planning, accounting, and business development for small businesses and entrepreneurs. He provides expert guidance on entity setup, tax optimization, and funding strategies. Michael is actively involved in national franchise networks, including IFPG, FranServe, FBA, and The You Network, as well as real estate groups like Keller Williams Maine and the Greater Portland Board of Realtors. He also volunteers with SCORE, the Portland Regional Chamber of Commerce, and the Maine Society of CPAs.

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Case Study

Category	W-2 Employee	S Corp Business Owner
Gross Income	$100,000	$100,000
Income Split *(actual split depends on a "reasonable salary" based on the role and industry)*	-	$50,000 Salary, $50,000 Distribution
Less: Business Expenses		
• *Home Office Deduction*	-	($3,000)
• *Vehicle Expenses (Business Mileage)*	-	($5,000)
• *Cell Phone (Business Use)*	-	($1,200)
• *Meals and Entertainment*	-	($2,000)
• *Professional Development*	-	($2,500)
• *Health Insurance Premiums (Self-Employed)*	-	($6,000)
• *Employer Payroll Tax Expense (7.65% of Salary)*	-	($3,825)
Total Business Deductions	-	**($23,525)**
Adjusted Salary & Distribution	-	$50,000 Salary + $26,475 Distribution
Taxes Paid		
• *Social Security & Medicare*	($7,650) withheld	($3,825) (employee portion on salary only)
• *Federal Income Tax**	($15,000)	($11,650)
Total Taxes Paid	**($22,650)**	**($15,475)**

By leveraging deductions unique to business ownership, **the owner in this example pays approximately $7,175 less in taxes than the W-2 employee,** highlighting the value of strategic tax planning.

*Actual tax varies based on factors such as filing status, itemized deductions vs. standard deduction, dependents, and other personal circumstances.

Retirement contributions, not shown here, offer another way to reduce taxable income. Both employees and business owners can make tax-advantaged contributions, with business owners often having access to higher limits through SEP IRAs or solo 401(k)s.