



# STRATEGIES FOR Success

## THE TAX ADVANTAGES OF EMPLOYING YOUR SPOUSE

*There are many benefits if your business qualifies for spousal employment.*

You may not be thinking of taxes right now, but you should be—especially if your business operates as a sole proprietorship and qualifies for spousal employment. By formally employing your spouse in the business this year, you could reap several tax benefits.

### Health Care

The most significant benefit you could receive is that you could deduct 100% of your health care expenses.

By formally employing your spouse and establishing an Internal Revenue Code (IRC) Section 105 medical reimbursement plan, you, as a qualifying sole proprietor, may deduct these health care costs.

If you file a Schedule C or a Schedule F form and you establish the plan, you may be able to deduct 100% of your medical, dental and vision insurance premiums. In addition, 100% of your out-of-pocket expenses not covered by insurance can be covered under the plan. Typically, qualifying small business owners save between \$1,000 and \$2,000 off their yearly tax bill.

### IRA Deduction

A second benefit of a formal employment relationship between spouses is the IRA deduction. A spouse-employee can

create an IRA account in which the spouse can contribute up to \$2,000 per year. The contribution can be tax deductible by the employee or it could be invested in a Roth IRA which is not deductible but on which the earnings may never be taxed. This can be an important aspect of retirement planning for the employee and family.

### Social Security

The third tax benefit of this relationship is that it allows the spouse to establish his or her own Social Security account. Again, this may assist with retirement planning; however, and more importantly, it is a source of income in the event of a disability and it establishes eligibility for Medicare.

### Expenses

Finally, if your spouse were to become a bonafide employee in your sole proprietorship, you would be able to deduct any ordinary and necessary spousal business travel and entertainment. This can be a significant benefit for many types of businesses.

**To learn more about the tax advantages of employing your spouse, consult your Fiducial Business Services representative.**

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