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## Does a Corporation Have to Have Payroll?

Small business owners are often accustomed to determining their own salaries based on the revenues of the business. While this practice works well for sole proprietorships and general partnerships, owners of corporations must follow somewhat different pay practices that include drawing a personal salary as part of the corporate payroll.

## Function

Unlike sole proprietorships and partnerships, corporations function as legal entities independent of their owners and top officers. As revenue flows into the corporation, it belongs to the corporation itself rather than the corporate officers or owners. The revenue then flows to corporate employees, including top officers, in the form of salaries or wages.

## Taxation

Corporate pay practices stem largely from the way taxes apply to corporations. When a corporation dispenses funds through payroll, even if to just one employee, the employee receives a set amount minus any funds the corporation withholds for taxes. At the same time, the corporation also sets aside funds to cover its share of taxes. The corporation can spend the remaining revenue on other businesses expenses, and it pays corporate income tax only on the funds remaining after all disbursements. This tax structure serves to separate employee funds from corporate funds for tax purposes; the employee pays income taxes only on actual earnings, and the corporation pays income taxes on actual profits rather than total revenue. To make this structure work, though, the corporation must disburse employee payments through payroll.

## Accounting

Many business owners associate payroll with the idea of complex accounting packages and expensive financial software. In small corporations, though, maintaining a payroll can require little more than a written record of payments made and taxes withheld. Tech-savvy business owners may choose to delegate payroll data to a software application, but the U.S. Internal Revenue Service requires only that corporations keep certain financial records with no preference for the system through which corporate officers maintain and report this information.

## Considerations

Even though corporations can follow very simplified payroll practices, corporate pay structures are not right for all businesses. Corporations that do not earn enough revenue or lack the borrowing power to maintain a regular payroll, for example, may benefit from a sole proprietor or limited liability company structure. Corporations filed under Subchapter S, commonly known as S corporations or just S corps, can pass losses to employees for personal tax deductions. Regardless of what method a corporation uses to disburse payments and keep records, it must maintain certain employee data such as compensation terms, employee W-4 forms and other payroll-related information.

I \_\_\_\_\_ Co. \_\_\_\_\_

Completely read and understood. I do hereby Notify Nash Business Services, Inc.

\_\_\_\_\_ To Opt in and Start My payroll services \_\_\_\_\_ To Opt out don't Start of Stop my Payroll Services  
Initial Initial

Signature

Date

Title