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Using a Common Paymaster to Reduce Taxes



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Each employer is generally responsible for the collection and remittance of Federal Insurance Contributions Act (FICA) taxes, which include Social Security and Medicare taxes, for its employees. This responsibility applies even when businesses are under common ownership. Employees are also individually responsible for FICA taxes on wages received.

For 2026, the Social Security portion of FICA applies only to wages up to \$180,600, while the Medicare tax applies to all wages. An additional 0.9% Medicare tax applies to Medicare wages exceeding \$250,000 for married filing jointly, \$125,000 for married filing separately, and \$200,000 for all other taxpayers. Employers must withhold the additional Medicare tax on wages paid in excess of \$200,000 in a calendar year, regardless of the employee's filing status. There is no employer match for the additional Medicare tax.

When an employee works for more than one related employer, Social Security taxes may be overpaid if each employer separately applies the annual wage base. While employees can claim a credit for excess Social Security taxes on their individual income tax returns, employers do not receive a corresponding credit. A common paymaster arrangement can help avoid this inefficiency.

What is a common paymaster?

If a business owner operates more than one C and/or S corporation (or LLC taxed as such), he/she may be able to avoid overpaying FICA taxes by utilizing a common paymaster. A common paymaster arrangement allows related employers to designate one entity to calculate, withhold, and remit FICA taxes for employees who work concurrently for more than one member of the related group. When properly structured, the aggregate FICA taxes paid are no greater than if the employee worked for a single employer.

To qualify:

- The employers must be related under Treasury Regulation §31.3121(s)-1;
- The common paymaster must be a member of the related group; and
- There must be concurrent employment by one or more related employers.

Corporations are considered related if any one of the following tests is met:

- The corporations are members of a controlled group (using a 50% ownership threshold, rather than the usual 80%);
- The corporations have common holders of at least 50% of the voting power;
- At least 50% of the officers of one corporation are officers of the other corporation(s); or
- At least 30% of one corporation's employees are concurrently employed by the other corporation(s).

Administration and compliance

No specific IRS form is required to elect a common paymaster arrangement. Instead, the employers must enter into a written agreement authorizing one entity to act as the common paymaster and outlining the responsibilities of each party.

If a common paymaster is elected:

- The common paymaster is responsible for filing employment tax returns and issuing a single Form W-2 reflecting wages paid on behalf of itself and the related employers;
- Each related employer remains responsible for its allocable share of wages and employment taxes;
- Deductions are allowed only if each employer reimburses the common paymaster for wages and taxes paid on its behalf.

If the common paymaster fails to remit employment taxes, it remains liable for the unpaid amounts. In addition, each related employer is jointly and severally liable for its allocable share of the taxes.

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Example: Avoiding excess FICA taxes

Assume that Mike is the 100% owner of two S corporations (Brady Architects and Brady Construction), and he is employed by and performs services for both businesses. The businesses are very successful in 2026, and he receives \$200,000 of wages from each company. Neither company is a common paymaster, so each business is responsible for collecting and remitting FICA taxes on behalf of their employees as well as withholding FICA taxes from their employees' wages.

Without a common paymaster, each corporation separately withholds and pays Social Security taxes on wages up to the annual limit. Each company would pay approximately \$14,241 in employer FICA taxes, resulting in \$28,482 of combined employer taxes. Mike would receive a credit of approximately \$11,197 on his individual return for excess Social Security taxes withheld and would separately pay \$1,800 of additional Medicare tax on wages above \$200,000.

If Mike elects to have one of the companies serve as a common paymaster, that entity would be responsible for filing all required employment tax returns and issuing a single Form W-2 reporting wages paid on behalf of both companies. As a result, Social Security taxes would be applied only once to Mike's combined wages, reducing the Social Security taxes paid by the companies and withheld from Mike's paychecks, while increasing the Medicare taxes withheld. Overall, this would produce a net increase in Mike's take-home pay of \$9,397. In addition, Mike would no longer need to claim a credit of approximately \$11,197 for excess Social Security taxes paid or separately pay the \$1,800 additional Medicare tax when filing his individual income tax return.

As a result of H.R.1 of the 119th Congress (commonly known as the One Big Beautiful Bill Act), the estate, gift, and generation skipping tax exemptions amounts enacted under the Tax Cuts and Jobs Act of 2017 were made permanent. Effective January 1, 2026, the exemption amount will be \$15 million per person (\$30 million for a married couple), with annual adjustments for inflation. For asset transfers in excess of the applicable exemption amount and otherwise subject to such taxes, the highest applicable federal tax rate remains at 40%. In addition, under different rates, rules, and exemption amounts (if any), there may be state and local estate, inheritance, or gift taxes that apply in your circumstances. Please consult your own tax or legal advisor for advice pertaining to your specific situation. This tax-related discussion reflects an understanding of generally applicable rules and was prepared to assist in the promotion or marketing of the transactions or matters addressed. It is not intended (and cannot be used by any taxpayer) for the purpose of avoiding any IRS penalties that may be imposed upon the taxpayer. New York Life Insurance Company, its agents and employees may not give legal, tax or accounting advice. Individuals should consult their own professional advisors before implementing any planning strategies. These materials are prepared by The Nautilus Group®, a service of New York Life Insurance Company, and are made available to all Nautilus Group member agents and, as a courtesy, to select agents of New York Life Insurance Company. SMRU 5018190 Exp. 1.31.2029