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# Should Business Owners Put Spouse On Payroll for Social Security Purposes?

*By Elaine Floyd, CFP®*

**Social Security can be a tricky subject for many clients, with added complexity for small business owners. One common question concerns compensation for family members and their eligibility for Social Security. Here are the factors to consider.**

A common question asked by business owners is whether or not they should put a spouse on the payroll to make them eligible for their own Social Security benefits. The wives of working husbands already qualify for spousal benefits, but these benefits are only 50% of the working husband's primary insurance amount. Is it worth it to pay Social Security taxes on her so she can qualify for her own benefit?

## SALARY DECISIONS

There are a few ways salary can be arranged: the business owner might add the wife to the payroll and pay her a minimal salary to give her basic Social Security eligibility on her own work record. Or he might pay them both a high salary in order to maximize both spouses' respective Social Security benefits. Or, once he's qualified for a fairly high benefit, he might swap out his own high salary and pay himself little or nothing while paying his wife enough to give her more than the minimal Social Security benefit.

There is also the question of how much business owners should pay themselves in salary to begin with, regardless of how it's divided up between husband and wife. At its core, the question is about the return on investment a business owner might receive in exchange for paying self-employment taxes.

## PAYING TAXES

These self-employment (SE) taxes are not inconsequential. Business owners pay both the employee's and the employer's share of Social Security and Medicare taxes. Social Security taxes are 12.4% on salary up to $176,100 in 2025. Medicare taxes are 2.9% on all salary, with an additional 0.9% on salary over $250,000 for married couples. It definitely pays to minimize Medicare taxes because benefits do not increase with the payment of higher taxes.

Once you've paid a minimal amount into Medicare for 10 years, both you and your spouse qualify for free Part A starting at age 65. (Everyone over 65 qualifies Part B as long as they pay the monthly premiums.)

## ADDING YOUR SPOUSE TO THE PAYROLL

Social Security is a different story. Social Security's progressive formula means that the more you earn, the higher your benefit will be. But will your benefit be enough higher to justify paying the higher SE taxes? Let's do some calculations using the Social Security Administration's Detailed Calculator on the Social Security website.

Our hypothetical couple, Jerry and Jamie, are both 55 years old. Jerry has paid himself the maximum Social Security wage base since he was 30. Jamie has drawn no salary at all.

If Jerry continues to pay himself the Social Security wage base until he is 67, his primary insurance amount (PIA), or the benefit he will receive if he files for it at full retirement age, will be about $3,600 in today's dollars, according to the SSA Online Calculator. If Jamie reaches full retirement age (FRA) with no earnings record of her own, she will be entitled to a spousal benefit of 50% of Jerry's PIA, or $1,800. Their combined benefit at full retirement age will be $5,400.

If Jerry continues to pay himself the maximum wage base and adds Jamie to the payroll at $20,000 a year for the next ten years, Jamie's PIA on her own work record will be just $428, which is well below the spousal benefit. This would cost them more than $30,000 in self-employment taxes on Jamie's salary with no bump in Social Security benefits. It may not be worth it.

If Jamie goes onto the payroll at maximum salary, she could build her PIA up to $1,900. If Jerry is also receiving maximum salary, they would have a combined monthly benefit of $5,500 ($3,600 + $1,900). This is only $100 more than what they would receive if Jamie just received a spousal benefit without taking any salary. Yet they would have paid about $180,000 in additional self-employment taxes on her salary (not counting annual increases in the maximum wage base).

What if Jerry stops paying himself while paying Jamie the maximum Social Security wage base for the next 10 years? This will cost them no additional SE taxes because they are just assigning Jerry's salary to her. Jamie's PIA will be the $1,900 while Jerry's PIA will drop by about $100, for a total benefit of $5,400.

Compared to the status quo, where Jerry receives maximum salary while Jamie receives no salary, assigning the salary to Jamie would net them a slightly lower monthly benefit: $5,400 vs. $5,500. It would also reduce Jamie's survivor benefit if Jerry dies first: $3,500 vs. $3,600 (or $4,340 vs. $4,464 if he delays to age 70).

So the conclusion in this hypothetical case is that it would not be worth it for Jamie to start drawing a salary. If they pay her a minimal salary, they would pay additional SE taxes for a benefit she can't use. Even if they pay her a high salary, it would give her a benefit that's just about on par with the spousal benefit and costs them an additional $180,000 in SE taxes.

As an alternative they could stop paying Jerry and assign his salary to Jamie. In this case there would be no additional SE taxes, but it would lower their combined monthly benefit by $100 and reduce Jamie's survivor benefit.

The conclusion in this case is that paying a nonworking spouse a salary on top of the primary earner's salary would not give the nonworking spouse a Social Security benefit that is enough higher than the spousal benefit to justify paying the SE taxes. It's essentially money down the drain. Even swapping the salary from one spouse to the other, although it wouldn't increase SE taxes, would result in a slightly lower combined benefit.

But everyone's situation is different. To try out different salary scenarios, go to your Social Security account (www.ssa.gov/myaccount) and run the Retirement Estimator. For each spouse enter presumed earnings going forward. Try zero for the higher-earning spouse (Jerry in this example) and $200,000 for the nonworking spouse. See how the benefit estimates would change. If you are considering adding on a salary (as opposed to just swapping from one spouse to the other), be sure to figure the additional SE taxes by multiplying the additional salary amount by .124 (ignoring Medicare taxes for the time being).

Savvy Social Security planning for widows and widowers involves coordinating the person's own retirement benefit with the survivor benefit. It is possible to sequence these benefits to maximum advantage. Talk to your financial professional or the Social Security Administration if you are eligible for both a survivor benefit and a retirement benefit based on your own work record.

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