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## Hayden Consulting, Inc.

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**Offices:**  
Carmel, Indiana  
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Hayden Consulting, Inc.

### Last Month:

- Standard Mileage Rate Increased
- What is Goodwill

### Important Links:

[Internal Revenue Service](#)

[Indiana Department of Revenue](#)

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## Taxes on Online Retail Transactions

Often there is confusion on whether an item purchased Online is subject to Sales Tax for residents of Indiana. Many believe if the item is purchased over the Internet, the transaction it is not subject to sales tax. Unfortunately, this is not the case.

For a company selling over the Internet with a "substantial nexus" (a presence, or a significant amount of business) in Indiana has an obligation to collect and remit sales tax on each sale conducted. The end result under Indiana law is that out-of-state Online retailer (like Overstock.com or Drugstore.com) can sell goods to Indiana customers without collecting or remitting sales tax because these companies have no physical location in the state.

Although an Online retailer does not collect and remit sales tax on purchases made by customers in Indiana does not mean those purchases are not subject to tax. Indiana residents who purchase goods through out-of-state online retailers are required to pay Use tax on such purchases and the Use tax and retail Sales tax rates are both 7 percent of the purchase price.

If tax revenues are lost as a result of Online purchases, it's the result of Hoosiers not complying with state law. Use tax is paid by Indiana residents along with their annual tax return.

## "S" Corporation Shareholder Compensation

Shareholders of an "S" corporation prefer dividend distributions of corporate profits rather than compensation as an employee. Compensation is subject to payroll taxes and dividend distributions are not. To prevent shareholders from avoiding payroll taxes by maximizing dividends and minimizing compensation, the Internal Revenue Service requires corporations to pay shareholders, who provide substantial services, a reasonable compensation for these services.

Over the years disputes between the IRS and corporations have placed courts in the position of determining if reasonable compensation is being paid to a shareholder. Two recent district court decisions provide guidance to determine whether the IRS and the courts will consider a shareholder's compensation reasonable.

Business owners have discovered that by electing to become an S corporation the status resulting from business profits changes. Distributions do not incur self-employment or Social Security and Medicare tax paid on these earnings. Shareholders pay regular income tax on the respective shares of business profits, but no SS or Medicare. Federal income tax is assessed on each shareholder's portion of profit regardless if the company distributes these profits. Shareholders providing services to S corporations incur payroll taxes only on their wage compensation. Unlike active participants in an LLC (unless corporation status is elected) or partnership, there are no payroll taxes on S corporation profits.

Click this link to read the entire Article ["S" Corporation Shareholder Compensation](#)

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