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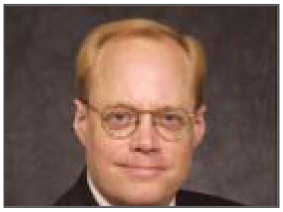

Robert W. Wood

THE TAX LAWYER

TAXES | 4/05/2014

Tax-Smart Billionaires Who Work For $1

Minimum wage is going up, but big-time CEO pay seems to be going the other direction. Not overall pay necessarily, but salary. In fact, it's increasingly common for common-man honchos to ***volunteer*** for a nominal $1 salary. And they may not want a cash bonus, either.

Stock growth and capital gain is a lot more attractive and is taxed much more favorably. Besides, offering to work for a pittance can be a shrewd move. It shows current and prospective shareholders what you're about.

In 2012, Mark Zuckerberg earned $770,000 in salary and bonus, but now the CEO is Facebook's ***lowest***-paid employee. That's right, now Facebook's Mark Zuckerberg is among billionaire CEOs earning a $1 salary. Of course, he's worth $27.8 billion, so he could afford to request an annual wage of $1 in 2013.

One dollar pay suggests that a CEO is really looking out for shareholders. Rather than drawing large amounts of cash, taking a big equity stake and virtually no cash looks egalitarian. It also makes the CEO focused on growing the company's stock.

That's one reason it's become popular. Mr. Zuckerberg isn't the only one doing it. Google's Sergey Brin and Larry Page each earn a $1 salary. So does Hewlett-Packard's Meg Whitman (net worth $2 billion) and even Oracle's Larry Ellison (net worth $51.5 billion).

But the H-P and Oracle honchos nevertheless earn significant compensation from their companies. Whitman earned $17.6 million in stock and other performance-based awards in 2013. Ellison was paid $79.6 million almost entirely in stock options. Compensation tied to performance is one thing, and can be a good deal for both company and exec.

Some elected officials have taken the $1 challenge, including former Mayor Bloomberg and former Governor Schwartzenegger and former Governor Mitt Romney. And some famous past examples included Chrysler's Lee Iacocca and Steve Jobs. A few other $1 execs, include:

- Richard Hayne, CEO of Urban Outfitters;
- Kinder Morgan oil and gas man Richard Kinder; and
- Pharmacyclics CEO Robert Duggan, though he won't even take $1!

But is there any tax game here? Yes and no. Long before the huge executive pay packages of the last few decades, the IRS labeled some pay unreasonable and levied extra taxes as a result. Usually, that's pay that is too big, so can't be deducted on the company's taxes.

In fact, now most public companies face a limit on pay deductions of $1 million per employee unless the pay is performance based. But with closely held companies, the unreasonable compensation tax problem remains. How much pay is too much for a privately held company to deduct is fact specific.

Conversely, these days the IRS sometimes attacks pay for being too ***low.*** Once again, the IRS tries to impose extra taxes as a result. Why would the IRS care if you pay too ***little***? Whether the IRS stands to collect more by arguing that pay is too low or too high turns primarily on the type of business entity paying the compensation.

A C corporation deducts pay as a business expense, so the IRS wants to argue pay is too high and can't be deducted. But in an S corporation, there are smaller taxes to the owners by paying amounts out as "dividends" not as pay. After all, income taxes apply in any case, and the rates on dividends can be better than pay. What's more, the payroll taxes on compensation are shared by the employer and the employee. That means each side is paying more tax.

Famous examples of this S corporation tax dodge involved John Edwards and Newt Gingrich. But there's little to suggest it is illegal. It is simply a question of degree. Many of the tax cases in which people are found to pay too little compensation involve extreme facts, as where someone claims to be working for nothing.

And that brings us back to Mr. Zuckerberg and his ilk. Does the same rationale apply to them? It is hard to see how, since these are public companies, not closely held. And that's especially true with people like Mr. Zuckerberg and the Google twins Brin and Page. These founders don't need lots of options and restricted stock.

Where an executive takes $1 cash compensation ***plus*** considerable non-cash compensation like options and stock, one could argue there's an abuse depending on exactly what's awarded and exactly how the plan is implemented. Even so, most equity in this context is subject to tax as wages.

As a result, it's hard to see that there's much for the IRS to go after. Of course, that doesn't always stop the IRS....

You can reach me at Wood@WoodLLP.com. This discussion is not intended as legal advice, and cannot be relied upon for any purpose without the services of a qualified professional.