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Should You Have a Common Paymaster Arrangement?

Does your practice have employees, including physician-employees, who are also employed by a related entity? If so, the related entities may be paying too much for the employer's portion of employment taxes (e.g. FICA, Medicare FICA, FUTA) for those employees. A "common paymaster" arrangement could save a portion of those employment taxes.

Concurrent Employment

Concurrent employment simply means that more than one employer simultaneously employs an individual. A simple example would be a nurse who is a full-time employee of a hospital and also moonlights as a part-time (or even full-time) employee of a private medical practice. Generally, when an individual is simultaneously employed by two employers, he/she receives two paychecks and two W-2 forms (one from each separate employer). This results in both employers being liable for the employer's portion of employment taxes. However, that does not have to be the case where the two employers are corporations and are related.

Examples

Some examples of concurrent employment in a private practice setting should illustrate the types of situations in which a "common paymaster" arrangement could be beneficial.

- A radiology group practicing in a professional corporation also has a separate corporate entity for outpatient MRIs. Some of the radiologists (and sometimes even billing and other personnel) are employed both by the radiology practice corporation and by the MRI corporation.
- An ophthalmology group practicing in a professional corporation also has a separate related ambulatory surgery center corporation. Some of the nurses, techs and billing staff perform services as employees of both corporations.
- A cardiology group practices in a professional corporation. A separate related reading corporation that provides professional interpretation of EKGs, echocardiograms, stress tests, etc. for a hospital's "heart station" also employs some of the cardiologists in the medical practice corporation.

"Common Paymaster" Arrangements

Where two related employers that are corporations, such as the radiology practice corporation and the MRI corporation, concurrently employ the same individual, the federal government has decided that the related corporations need not pay double for the employer's portion of employment taxes. Related corporations are able to use a "common paymaster" arrangement authorized by the Internal Revenue Code. The "common paymaster" provision allows one of the related corporations to designate the other related employer as the "common paymaster" for any concurrently employed employees thereby eliminating the double employment tax problem.

Corporations are considered related if: (i) fifty percent or more of one corporation's officers are concurrently officers of the other corporation; or (ii) the corporations are members of a "controlled group of corporations" as defined in the Internal Revenue Code (with some modifications); or (iii) thirty percent or more of one corporation's employees are concurrently employees of the other corporation. The corporations need to meet only one of these definitions, not all of them, to be considered related.

Mechanics

The "common paymaster" is implemented by having one of the related corporations (typically the secondary corporation with the fewer employees) designate the other corporation (typically the main practice corporation) as the "common paymaster" for the concurrently employed employees. As a result, those concurrently employed employees receive no paycheck or W-2 from the secondary corporation. Instead, the secondary corporation pays the main practice corporation for the salary and other benefits the secondary corporation wants to pay to those employees. The main practice corporation (as the "common paymaster") in turn disburses (pays) that salary and other benefits to each of those employees as part of one paycheck from the main practice corporation. The main practice corporation also issues the employee only one W-2 at the end of the year.

You need to properly document the "common paymaster" arrangements within and as between the related corporations. Also note that the "common paymaster" provision doesn't work for partnerships and other non-corporations such as limited liability companies (LLCs). It does not work for Subchapter "s" corporations.

Summary

The net effect of all this is that each of the employees working at the secondary corporation is actually a W-2 employee of the secondary corporation. However, because of the "common paymaster" arrangements between the related corporations, those employees who work for both of the related corporations actually receive just one W-2 and it comes from the main practice corporation. More importantly, the related corporations only pay employment taxes once.

All this may be difficult to understand, however "common paymaster" arrangements have been around a long time and are perfectly legitimate under the Internal Revenue Code. Even if you don't presently fit squarely within the "common paymaster" provision, it may be possible to easily adjust your corporations to fall within the definitions.

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