Reducing Self-Employment Taxes by Renting from Your Spouse

As a sole proprietor, you know that the 15.3 percent self-employment tax can eat up your profits in a hurry. You may be able to use a simple strategy to ease this tax burden.

If you own an office building or other assets, you can set up a rental arrangement with your spouse that could significantly cut your self-employment taxes. Here's an example of how this strategy works:

Example. Wendy operates a sole proprietorship and earns $100,000 of net income. This income creates a self-employment tax liability of $14,129.55.

Wendy gives the office building to Jim, her spouse, who then rents the office space back to Wendy. Wendy pays Jim $2,000 rent each month (the fair rental value of the building), which moves $24,000 off Schedule C and onto Schedule E. Schedule E, unlike Schedule C, does not give rise to self-employment taxes.

The rent-from-my-spouse strategy cuts Wendy's self-employment income by $24,000, which puts an extra $3,391.09 of cash in her pocket at the end of the year. And she plans on doing this for at least 10 years, which means she'll pocket $33,910.90 before considering her investment earnings on this money.