TAX SAVING
STRATEGIES

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FOREWORD

This training would not be complete without a list of dozens of detailed strategies on how to reduce your clients' taxes. It is important to remember that this book is not intended to cover every tax planning strategy known to man.

However, there are more than enough strategies here for you to be able to build a business that enables you to help the majority of people save money on taxes.

This book contains 20% of strategies that cover 80% of savings, and will apply to 80% of the clients you will obtain.

We will continue adding strategies over time to help you deliver more and more value to the clients. But, keep in mind that your job isn't to find your clients every savings strategy available, rather it's to save them more than your fee (many times over).

For each strategy, we have included citations and a resource you can contact if you need help implementing these strategies. Some of these strategies require the use of a third party like an attorney or a financial advisor. Many you can do on your own.

If you do not feel comfortable completing a plan or a strategy for a particular client, you should consider reaching out and partnering with someone for your first 1-3 plans. Make sure you compensate them for their help and do not expect free advice. After all, you shouldn't be giving any either.

Whether you use the recommended resources or someone else, the key to remember is that you don't have to know how to implement these plans in detail before getting clients to commit to working you with. However, you do have to have confidence in yourself that you can figure it out, and remember that you have resources at your disposal to help you get it done. Over time, you will know how to do enough strategies yourself to deliver the value to the client and recommend the strategies that are best for them.

Anil Grandhi

Anil Grandhi
CEO & Founder
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MAXIMIZE DEDUCTIONS

STRATEGY: HOME OFFICE

Description

If your office space is located in your house, you can deduct your bills for utilities, homeowners' insurance, homeowners association fees, security, and general repairs and maintenance. Mortgage interest and property taxes are deductible expenses if you qualify for home office deductions. You can deduct the percentage of the square footage of your office divided by the total square footage of your house.

Calculation

Tax Rate X Savings

House is 4,000 sq ft and your office is 1,000 sq ft. And your rent is 4,000/mo. 25% or 1,000/mo is deduction. Which is 12,000/yr X the income tax rate.

Savings Ranges

Depends on the square footage of your house and the amount of your rent and mortgage payment. Limited to net income.

Preparation, Planning, or Implementation

Preparation, Planning

Applicable Years

Current and Future Years

Sources

Reg. Section 1.62-2(d)(1), IRC Section 121, Reg. Sections 1.121-1(e)(1) and 1.121-1(e)(4), IRC Section 121(d)(6), IRC Section 1(h)(1)(E), Rev. Proc. 2005-14

STRATEGY: TRAVEL EXPENSES

Description

Business travel is allowed for several reasons for business owners. Often business owners are reluctant to take travel related to deductions for business or are unaware that with some simple strategies, they can deduct travel combined with vacation.

Travel for New Business. Traveling to identify new locations, potential M&A or to acquire new investment property is all deductible business travel. Travel to and from the location, in addition to costs (lodging, Uber, etc.) on days that business or meetings are conducted are all deductible.

Conferences & Seminars. Travel to attend conferences and seminars is also deductible, and vacations can often be tacked onto these trips. Travel to and from the location for the participants is deductible, as is lodging for conference/seminar nights. However, non-business and non-conference days are not deductible.

Board Meetings. Board meetings in resort locations can be deductible with clear business purpose and a reason for why they can not be held at the business primary location. For example: enticement for board members to attend.

Travel costs for spouses and children are typically non-deductible, however, if they are involved in the business and have a business purpose for attending, the travel may be deductible. For example, a child who functions as videographer for the CEO and travels for that purpose would be deductible.

Calculation	Savings Ranges
Travel Costs x Tax Rate	Depends on the costs of travel Beware of luxury limits

Preparation, Planning or Implementation	Applicable Years
Preparation, Planning	Prior, Current and Future Years

Sources

IRC Section 162(a)(2); T.J. Enterprises, Inc. v Commr., 101 TC 581; Welch v Helvering, 290 U.S. 111; Barry v Commr., 54 TC 1210, aff'd 435 F.2d 1290; United Title Insurance Co., TC Memo 1988-38; Jackson v Commr., TC Memo 1975-301; IRC Section 274(h)(7); Danville Plywood Corp. v U.S., 899 F.2d 3; Blackshear v Commr., T.C. Memo 1977-231
Robinson v Commr., T.C. Memo 1963-209; Reg. Section 1.274-5T(b)(2).

STRATEGY: MEAL CATEGORIES

Description

50 Percent Deductions :

- Lunch with customer, client or employee associated with a business discussion
- Taxes and tips relating to a meal or entertainment activity
- Room rental for a dinner or cocktail party (assuming the event met the business relation test)

100 Percent Deductions :

- Transportation costs to and from a business meal or entertainment activity, may be 100 percent deductible or 50 percent depending on the facts.
- Meals provided on the employer's premises for the employer's convenience, if more than 50 percent of the employees are furnished meals for the employer's convenience
- Promotional activities that are made available to the general public
- Employer-provided social/recreational expenses primarily for the benefit of employees who are not highly compensated, such as a summer picnic or holiday party
- Business gifts up to $25 to any one individual per tax year

Nondeductible Items :

- Lunch with customer, client or employee without a business purpose/discussion
- Ticket price for sporting event that you do not attend
- Club dues; for example, country clubs, golf and athletic clubs
- Lavish or extravagant entertainment expenses (basically unreasonable expenses)
- Under TCJA, entertainment deductions are eliminated. Based on IRS guidance issued Oct 3, 2018, meals will continue to be deductible.

Calculation	Savings Ranges
50% or 100% of cash paid for meals depending on the type.	50-100% deduction X income tax rate.

Preparation, Planning or Implementation	Applicable Years
Preparation, Planning	Current and Future Years

Sources

code sec. 274(e)(4); IRC Section 119(a).; IRC Section 132(e)(2).; IRC Section 274(n)(2)(B).
Reg. Section 1.119-1(a)(2).; Reg. Section 1.119-1(a)(1).; Reg. Section 1.119-1(a)(2)(iii).
Reg. Section 1.119-1(a)(2)(i).; IRC Section 119(b)(4); IRS Reg. 1.119-1(a)(2)(ii)(e) 50 percent rule.; IRC Section 274(n).; FSA 200031003.; IR-2018-195
IRS Notice 2018-76

STRATEGY: HIRING CHILDREN & GRANDPARENTS

Description

Sole-proprietors and spousal partnerships can pay children up to $12,000 without incurring any tax neither income nor payroll for legitimate services rendered to the business based on a market rate of pay. S and C corporations and non-spousal partnerships can also take advantage of this strategy; however they are not exempt from payroll taxes, social security and Medicare. The business can take the deduction for the pay and on the child's tax return. If it is less than the standard deduction, thereby reducing taxable income to zero.

Calculation

Tax Rate x Savings

Savings Ranges

Tax Rate x $12,000 x # of children employed

Preparation, Planning, or Implementation

Preparation, Planning

Applicable Years

Current and Future Years

Sources

IRC Section 151(d)(5) 2018, IRC Section 63(c)(7) 2018, Rev. Proc. 2016-55

IRC Section 3121(b)(3)(A); Reg. Section 31.3121(b)(3)-1, IRC Section 3306(c)(5)

STRATEGY: MAXIMIZE DEPRECIATION

Description

Normal Depreciation. Confirm assets are properly capitalized and being depreciated. Many times this is not being done properly or at all by their current accountant. For example, a recent client owned a commercial building that was not capitalized or being depreciated, and the accountant had only the rental operations on the books.

Expense. The IRS allows for expensing items under certain limits, like small tools and equipment. The business sets a reasonable policy for capitalization limits, then expenses individual items under that limit. For example, if a client establishes $1,000 as the limit and buys a computer for $800, the computer would be expensed rather than depreciated.

Bonus Depreciation. In order to qualify for percent bonus depreciation, the original use of the property must begin with the taxpayer and the property must be: 1) Modified Accelerated Cost Recovery System (MACRS) property with a recovery period of 20 years or less, 2) depreciable computer software, 3) water utility property, or 4) qualified leasehold improvement property. Certain acquisition requirements and placed in service dates must also be met in order to qualify for 30, 50, or 100 percent bonus depreciation, and are discussed in more detail below.

Section 179. Similar to Bonus Depreciation, Section 179 allows full expensing of acquired assets (up to certain limits). Most equipment, furniture & fixtures (MACRS property) qualifies for Section 179 treatment.

(Cost Segregation - Covered in Advanced Strategies)

Calculation	Savings Ranges
Correct Ordering (Bonus/Sec 179/Regular)	$3,000-unlimited, though there are limits on bonus and S-179

Preparation, Planning or Implementation	Applicable Years
Preparation, Planning	Previous, Current and Future Years

Sources

IRC Section 167; IRC Section 168; IRC Section 179; IRC Section 461

STRATEGY: HEALTH CARE STRATEGIES

Description

2% or greater S-Corp shareholders can either be reimbursed for health insurance premiums or the S-Corp can directly pay health insurance premiums. Under either method, the S-Corp can deduct the cost. The amount paid for health premium must be included in W-2 earnings for the shareholder, exempt from FICA. Shareholder then deducts the premiums on 1040 as self-employed health insurance deduction.

Partners in a partnership may also elect the same treatment for insurance premiums; however premiums must be included as Guaranteed Payments since partners should not be paid salary or wages from a partnership they own.

Sole-proprietors can pay for and deduct insurance premiums on their 1040 as self-employed health insurance deduction.

Calculation

Tax Rate x Total Premiums

Savings Ranges

Tax Rate x Total Premiums

Preparation, Planning, or Implementation

Preparation, Planning

Applicable Years

Current and Future Years

Sources

Notice 2008-1. IRC Section 162(l)(2)(B). , IRC Section 162(l)(5).

Notice 2008-1., IRC Section 4980H(c)(2), which defines a large employer as having 50 or more employees. Notice 2017-20. IRC Section 162(a); Reg. Section 1.162-10(a). IRC Section 105(b). Notice 2008-1. Notice 2011-1. Rev. Proc. 2014-41. Notice 2015-17

STRATEGY: FRINGE BENEFITS

Description

Disability Insurance: Taxable, but exempt from FICA & Unemployment
Group Term Life: up to $50,000 for regular, non-shareholder employees
Qualified Moving Expenses: eliminated under TCJA
Qualified Transportation Costs: taxable and subject to FICA for shareholder
Qualified Dependent Care: total benefit provided to > 5% shareholders must be less than 25% or all benefits to all participants are taxable
Working Condition Benefits: corporate car, smartphone & service, job related education
De Minimus Benefits: use of company copy machine, small gifts, occasional parties & picnics, occasional theatre or sporting events
No Additional Cost Benefits: use of benefits from points and miles programs
Qualified Employee Discount Programs

Calculation

Tax Rate x Savings

Savings Ranges

Depends on the fringe benefits available and selected by client, but could range from several hundred to tens of thousands

Preparation, Planning or Implementation

Preparation, Planning

Applicable Years

Current and Future Years

Sources

IRC Section 1372; Rev. Rul. 91-26., IRC Section 1372., IRC Sections 1372(b); 318(a)(1)., IRC Sections 105; 106; 162(l); IRS Notice 2008-1; IRS Announcement 92-16., IRC Section 125(d)(1) and Prop. Reg. Section 1.125-1(g)(2). The S corporation shareholder-employee who owns more than 2 percent is not an employee for Section 125 purposes. Participation in the Section 125 plan by a non-employee negates the plan and makes it taxable for all participants. IRC Section 4980D; IRS Notices 2008-1 and 2015-17., IRC Section 4980B(b)(1).

Notice 2005-8., Rev. Rul. 58-90; Rev. Rul. 91-26; Announcement 92-16; Fact Sheet 2008-25., IRS Pub. 15-B, Employer's Tax Guide to Fringe Benefits (2018), Dated Feb. 22, 2018, p. Pub. Law 115-97, Sections 11048; 11049; H.Rpt. 115-466, p. 278., IRS Pub. 15-B, Employer's Tax Guide to Fringe Benefits (2017), Dated Dec. 16, 2016, p. , IRS Pub. 15-B, Employer's Tax Guide to Fringe Benefits (2018), Dated Feb. 22, 2018, p. 21., IRC Section 119., IRS Pub. 15-B, Employer's Tax Guide to Fringe Benefits (2018), Dated Feb. 22, 2018, p. 8., IRC Sections 74(c) 2018; 274(j) 2018., IRS Pub. 15-B, Employer's Tax Guide to Fringe Benefits (2018), Dated Feb. 22, 2018, p. 13., IRC Section 23; see 2017 Instructions for Form 8839, Qualified Adoption Expenses, dated Jun. 22, 2017., IRC Section 137., IRC Section 127(b)(3)., IRC Section 129(d)(4)., IRC Section 132(d) 2018., IRC Section 67(g)., IRS Pub. 15-B, Employer's Tax Guide to Fringe Benefits (2018), Dated Feb. 22, 2018, p. 21., IRC Section 132(e) 2018., IRS Pub. 15-B, Employer's Tax Guide to Fringe Benefits (2018), Dated Feb. 22, 2018, p. 9., IRC Section 132(b) 2018., IRS Pub. 15-B, Employer's Tax Guide to Fringe Benefits (2018), Dated Feb. 22, 2018, p. 19., IRC Section 132(c) 2018., IRS Pub. 15-B, Employer's Tax Guide to Fringe Benefits (2018), Dated Feb. 22, 2018, p. 11.

STRATEGY: ACCOUNTABLE PLANS

Description

An accountable plan allows employees, and in this case owner employees, to be reimbursed for expenses paid out of pocket. The expenses become deductions to the business and the employee or employee-owner can be reimbursed, creating non-taxable cash flow to them. In order for this plan to be a "Qualified Accountable Plan" it must have the following connection points:

-Business Connection
-Substantiation (Expense Reports - with receipts)
-No Excess Payments
-Timeliness (30 - Day Rule)

If not disbursed under an accountable plan, the payments to the employees could be considered additional wages by the IRS.

Examples: mileage, auto, home office, travel, meals & entertainment. Consider using a mobile app like www.mileiq.com to aid in documentation.

Calculation

Additional Expenses x Tax Rate
Expense Report done within 30 Days of expense

Savings Ranges

$2,000 - $10,000

Preparation, Planning, or Implementation

Preparation, Planning

Applicable Years

Current and Future Years

Sources
Treas. Reg. 1.62-2; IRC Section 3306(b)

STRATEGY: MEDICAL REIMBURSEMENT PLAN

Description

There are multiple medical reimbursement plan strategies available to small businesses. They range in their ability to create tax savings. Each Medical Plan has different rules and you MUST follow them in order to qualify for the rules:

IRC Section 125 - Pre-tax deduction that is still the BEST way to deduct employee paid Group Health Insurance from a paycheck. It also allows for Group Term Life plans, FSA's (Flexible Spending Accounts), and elective defined contribution plans.

IRC Section 105 Plan (HRA) - Normally done with a Schedule C or SMLLC. It can be done with a Family Management Company. Viable if: a) business employs at least one employee (can be a spouse), b) are over 25, and c) reasonable compensation is paid (benefits apply to compensation). The following expenses qualify: premiums paid from spouse W-2 (other job), Long Term Care Ins, any medical expense on Form 1040, or Special Needs Child Expenses.

HSA - Medical savings account for taxpayers that have a high deductible. This account can grow tax deferred, similar to an IRA. Contributions are tax deductible and qualified distributions are tax free. Unlike an FSA, an HSA does not go to zero at the end of each year and unused contributions can be continually rolled over to help fund retirement.

QSEHRA - Qualified Small Employer Health Reimbursement Account - Company funded account that allows for reimbursement of medical expense if health insurance is not offered by the employer. This reimbursement can be considered as part of the employee's compensation package. Reimbursements are flexible and have a max contribution amount. The benefit is shown on Form W-2 in box 12, code FF.

IRC Section 401(h) - A retirement plan with a medical twist. The account is attached to a Cash Balance Plan (defined benefit plan) that is offered by the employer. It is funded with pre-tax dollars, grows tax deferred, allows for tax free qualified withdrawals and also allows for tax bracket shifting opportunities.

Calculation	Savings Ranges
Qualified Contributions x Tax Rate	\$2,000 - \$100,000+

Preparation, Planning or Implementation	Applicable Years
Preparation, Planning	Current and Future Years

Sources

IRC Section 125; IRC Section 105; IRC Section 3306(c)(5); IRC Section 3121(b)(3)(A) IRC Section 223(a); IRC Section 4980(H)(c)(2); 2107 Form W-2 Instructions

STRATEGY: HOME ADMINISTRATIVE OFFICE

Description

Business owners who have a business location outside of their home, but also maintain a home administrative office for running the business can claim the home office as their primary office. As a result, all mileage for business purposes from the home office is deductible, including trips to office(s) outside of the home.

Calculation

Tax Rate x Mileage Rate x Estimated Mileage

Savings Ranges

$500 - $7,500

Preparation, Planning, or Implementation

Preparation, Planning

Applicable Years

Prior, Current and Future Years

Sources

IRC Section 280A(c)(1)

LEGAL ENTITY OPTIMIZATION

STRATEGY: SCHEDULE C TO S-CORP

Description

A sole-proprietor operating with an LLC can elect to be treated as an S-corporation for tax purposes. By moving operations off of the individual's tax return, the 15% self-employment tax is eliminated on earnings up to $128,400 and 2.9% on income greater than $128,400. S-corporation shareholders are required to receive reasonable compensation (RC) from the S-corp. Savings calculation is based on difference between RC and income up to $128,400 times 15% and 2.9% on difference above $128,400.

Calculation

15% for the amount between the annual salary and the limits on self employment tax of $128,400

Savings Ranges

3,000 - 15,000+

Preparation, Planning, or Implementation

Planning, Implementation

Applicable Years

Current and future years

Sources

IRC Section 1361-1363

STRATEGY: S-CORP TO C-CORP

Description

In a business where substantial profits are being reinvested into the business rather than being distributed to owners, a C-Corporation structure may be more beneficial. Under TCJA, corporate income tax rates are a flat 21% where individual tax rates on pass-through income are likely much higher. The tax savings calculation will be the differential between the individual owner tax rates and the corporate tax rate.

Calculation

The difference in the individual's tax rate and the tax rate of 21% assuming no dividends during the period

Savings Ranges

$5,000 - Unlimited

Preparation, Planning, or Implementation

Planning, Implementation

Applicable Years

Current and future years

Sources

IRC Section 351-368

STRATEGY: LATE S ELECTIONS

Description

The IRS facilitates the grant of relief to late-filing entities by consolidating numerous other revenue procedures into one revenue procedure and extending relief in certain circumstances. This procedure provides guidance for relief for late:

S corporation elections
Electing Small Business Trust (ESBT)elections
Qualified Subchapter S Trust (QSST)elections
Qualified Subchapter S Subsidiary (QSub) elections
Corporate classification elections which the entity intended to take effect on the same date that the S corporation election would take effect.

Generally, the relief under the revenue procedure can be granted when the entity fails to qualify solely because it failed to file the appropriate election under Subchapter S timely with the applicable IRS Campus and all returns reported income consistently as if the election was in effect. Please note that for purposes of this guidance, the "effective date" is the date the election is intended to be effective.

Calculation	Savings Ranges
15% for the amount between the annual salary and the limits on self employment tax of $128,400	$3,000 - $15,000+

Preparation, Planning or Implementation	Applicable Years
Planning	Retrospective and Current Year

Sources
Rev. Proc. 2013-30;
IRS Reference:
www.irs.gov/businesses/small-businesses-self-employed/late-election-relief

RETIREMENT PLANNING

STRATEGY: PROFIT-SHARING RETIREMENT PLAN

Description

A profit sharing plan is a type of defined contribution plan that lets companies help employees save for retirement. With a profit sharing plan, contributions from the employer are discretionary. That means the company can decide from year to year how much to contribute (or whether to contribute at all) to an employee's plan. If the company does not have a profit, it does not have to make contributions to the plan. (But a company does not need to be profitable to have a profit-sharing plan.) This flexibility makes it a great retirement plan option for small businesses or businesses of any size.

Calculation

The maximum contribution amount for a profit sharing plan is the lesser of 25% of compensation or $55,000 in 2018

Savings Ranges

Tax Rate at Contribution

Preparation, Planning, or Implementation

Planning, Implementation

Applicable Years

You may need to partner with a financial advisor

Sources

IRC, DOL, ERISA, and others

STRATEGY: TRADITIONAL 401(K)

Description

A 401(k) plan is a qualified employer-sponsored retirement plan that eligible employees may make salary-deferral contributions to on a post-tax and/or pretax basis. Employers offering a 401(k) plan may make matching or non-elective contributions to the plan on behalf of eligible employees and may also add a profit-sharing feature to the plan. Earnings in a 401(k) plan accrue on a tax-deferred basis.

Calculation

The maximum contribution amount for a 401(k) is $18,500, plus a catch-up contribution for those 50 and older of $6,000 for a total max of $24,500

Savings Ranges

Tax rate at Contribution

Preparation, Planning, or Implementation

Planning, Implementation

Applicable Years

Current and Future Years

Subcontractor

You may need to partner with a financial advisor.

Sources

IRC 401k

STRATEGY: ROTH 401(K)

Description

A Roth 401(k) is an employer-sponsored investment savings account that is funded with post-tax money up to the plan's contribution limit. This type of investment account is well-suited to people who think they will be in a higher tax bracket in retirement than they are now.

Calculation

The contribution limit for individuals in 2018 is $18,500 per year. Individuals 50 and older can contribute an additional $6,000 in 2018 as a catch-up contribution

Savings Ranges

Tax rate at Contribution

Preparation, Planning, or Implementation

Planning, Implementation

Applicable Years

Current and Future Years

Subcontractor

You may need to partner with a financial advisor.

Sources

IRC 401k

STRATEGY: CASH BALANCE PLAN

Description

A cash balance pension plan is a pension plan in which an employer credits a participant's account with a set percentage of his or her yearly compensation plus interest charges. A cash balance pension plan is a defined benefit plan. As such, the plan's funding limits, funding requirements and investment risk are based on defined-benefit requirements: as changes in the portfolio do not affect the final benefits to be received by the participant upon retirement or termination, the company solely bears all ownership of profits and losses in the portfolio.

Calculation

The maximum contribution varies by age, but is typically much higher than a 401(k) or a Profit-sharing plan

Savings Ranges

Tax rate at Contribution

Preparation, Planning, or Implementation

Planning, Implementation

Applicable Years

Current and Future Years

Subcontractor

You may need to partner with a financial advisor

Sources

411(a)(7)(A)(i), 411(a)(7)(A)(ii), 412

STRATEGY: SELF-DIRECTED RETIREMENT FUNDS

Description

A self-directed individual retirement account (SDIRA)is an individual retirement account (IRA) in which the investor is in charge of making all the investment decisions. The self-directed IRA provides the investor with greater opportunity for asset diversification outside of traditional stocks, bonds, and mutual funds. Self-directed IRAs can invest in real estate, private market securities and more. All securities and investments are held in an account administered by a custodian or trustee.

Calculation

Annual individual contributions to traditional IRAs cannot exceed $5,500 in most cases. If you're 50 or older, you can contribute up to $6,500 per year using catch-up contributions.

Savings Ranges

Tax rate at Contribution

Preparation, Planning, or Implementation

Planning, Implementation

Applicable Years

Current and Future Years

Subcontractor

You may need to partner with a financial advisor

Sources

IRC 408

STRATEGY: 412(E)(3) PLANS

Description

In a 412(e)(3) plan, each participant is provided with a guaranteed, pre-determined benefit amount that is defined by the plan document and fully insured by the purchase of fixed annuity or life insurance and annuity contracts. Because plan benefits are guaranteed, 412(e)(3) plans are exempt from the funding requirements of IRC Section 41. Any “excess” interest earnings (or dividends, if paid) over and above the life and annuity contract guarantees are used to reduce the next year’s plan contribution.

Calculation

The calculations are complex and depend upon age and income

Savings Ranges

Tax rate at Contribution

Preparation, Planning, or Implementation

Planning, Implementation

Applicable Years

Current and Future Years

Subcontractor

You may need to partner with a financial advisor

Sources
IRC 408

STRATEGY: DEFINED BENEFIT PLANS

Description

A defined benefit pension plan is a type of pension plan in which an employer/sponsor promises a specified pension payment, lump-sum on retirement that is predetermined by a formula based on the employee's earnings history, tenure of service and age, rather than depending directly on individual investment return

Calculation

Contributions to a defined benefit plan are based on what is needed to provide definitely determinable benefits to plan participants. Actuarial assumptions and computations are required to figure these contributions.

Savings Ranges

Tax rate at Contribution

Preparation, Planning, or Implementation

Planning, Implementation

Applicable Years

Current and Future Years

Subcontractor

You may need to partner with a financial advisor

Sources

411(a)(7)(A)(i), 411(a)(7)(A)(ii)

INSURANCE

STRATEGY: CAPTIVE INSURANCE

Description

A Captive Insurance Company is an insurance company established with the specific objective of insuring risks emanating from their parent group. This is an alternative form of risk management that is becoming a more practical and popular means through which companies can protect themselves financially while having more control over how they are insured. In essence, a business can choose to pay tax deductible premiums to its own Captive, instead of a 3rd party, saving itself the profit margin that would otherwise have to be paid to that 3rd party. Benefits include savings to the bottom line as well as a reduction in risk exposure resulting from more targeted coverage. In addition, many Captives have developed into profit centers with reserves that accumulate tax free when premiums are in excess of claims, and when excess reserves are pulled out of the Captive they are taxed at Capital gains rates rather than ordinary income rates.

Calculation

Maximum annual premium paid into a Captive Insurance Company is $2.3m for 2018. The premiums paid are tax deductible

Savings Ranges

10-50% of current premium

Preparation, Planning or Implementation

Planning, Implementation

Applicable Years

Current and Future Years

Subcontractor

You may need to partner with a financial advisor

Sources

IRC 831(b) Domicile Regulated, UPS vs Commissioner of IRS

LEGAL LOOPHOLES

STRATEGY: AUGUSTA LOOPHOLE

Description

The IRS allows a business owner to rent their primary residence or a vacation home to their business for up to 14 non-consecutive days each year. The residence can be located anywhere in the United States and the income is excluded from taxable income for the residence owner / business owner.

The rental is established with a lease agreement between the business and residence owner, with pricing supported by researching and documenting comparable space for a similar event.

Calculation

Established Rental Price x Tax Rate

Savings Ranges

$1,000 - $9,000

Preparation, Planning, or Implementation

Planning, Implementation

Applicable Years

Current and Future Years

Sources

PLR 8104117; IRC Section 280A(c)(6); IRC Section 274(a)(1)(B) IRC Section 280A(d)(2); IRC Section 267(a)(2); IRC Section 262; IRC Section 162; Gregory v Helvering, 293 U.S. 465 (1935); Frank Lyon Co. v United States, 435 U.S. 561, 573 (1978); IRC Section 280A(g); IRC Section 274(e)(4); IRC Section 274(n)(2)(A) IRC Section 280A(d)(2)(A) IRC Section 267(a)(2)(A) IRC Section 280A; Rev. Rul. 76-287; Leslie A. Roy v Commr., TC Memo 1998-125 PLR 8104117

STRATEGY: QEAAP

Description

Qualified Plan for Employee Achievement Award program - An achievement award that is given under an established written plan that does not discriminate towards highly paid employees. Normal awards are $400 per employee, but can be as much as $1,600 if an employee is given multiple awards or the individual awards are greater than $400. Awards are normally given based off of length of service by an employee. Owner-employees of S-Corps do not qualify for this tax break. The award must be given in the form of a tangible asset and not cash. The employee can choose their award as long as the cost does not exceed the maximum.

Calculation

Award Value x # of Employees x Tax Rate

Savings Ranges

$1,000 - $3,000

Preparation, Planning, or Implementation

Planning, Implementation

Applicable Years

Current and Future Years

Sources
26 USC § 274(j)(3)(B)(i)

NICHE STRATEGIES

STRATEGY: 1031 EXCHANGE

Description

Allows the exchange of like property with indefinite deferral of gains resulting from the disposition of the property being sold. Exchange is a misnomer and the transaction is the combination of a sale of the original property combined with the acquisition of a new, like property. However, both the sale and acquisition must be conducted through a qualified intermediary for the transactions to qualify under Section 1031. Once the sale is made (through the intermediary), the taxpayer then has 45 days to identify new property and 180 days to execute the transaction (also through the intermediary). The TCJA eliminated many classes of property from 1031 exchange; however, all real estate still qualifies. Tax can be triggered if cash is received or debt is reduced as a result of the exchange.

Calculation

Cap Gains Tax Rate x Gain on Sale

Savings Ranges

$3k - Unlimited

Preparation, Planning, or Implementation

Planning, Implementation

Applicable Years

Current and Future Years

Sources

Reg. Section 1.1031, Private Letter Ruling 8118023, PLR 200842019, IRC Section 453(f)(6), Revenue Procedure 2000-37

STRATEGY: COST SEGREGATION

Description

When a building is acquired, rather than just capitalizing the building and land as assets, a cost segregation study can be performed to identify other classes of assets within the building. For example, personal property items like carpet, light fixtures, kitchen appliances, landscaping, driveways, sidewalks, decks, etc. can be broken out to shorter class lives (5, 7 & 15 years). The shorter asset life classes can use accelerated depreciation, and may also qualify for treatment under bonus depreciation and Section 179. Compared to straight line depreciation at 27.5 or 39 years on the building, a cost segregation study can create significant tax savings in the earlier years of the ownership of the building.

Properties with values great than $500,000 will need a cost segregation study completed by an engineering consulting firm that specializes in preparing the studies. Software is available for cost segregation studies on residential rental properties valued at $500,000 or less.

Calculation

Additional Depreciation (including bonus & 179) x Tax Rate

Savings Ranges

$10,000 - $100,000+

Preparation, Planning, or Implementation

Planning, Implementation

Applicable Years

Prior, Current and Future Years

Subcontractor

Consider using www.kbkg.com.

Sources

Reg. Section 1.446-1T(e)(5)(iii); IRC Section 168(k); Rev. Proc. 2002-19, Section 2.02(2); Rev. Proc. 2002-9, Section 6.02(7); Rev. Proc. 2006-12, Section 5.04 modifying Rev. Proc. 2002-9, Section 4.02(6)

STRATEGY: PASSIVE REAL ESTATE LOSSES

Description

Passive real estate losses (from investments) can help offset income from active real estate professionals, taxpayers with less than $150,000 taxable income (MFJ) or $75,000 (single), and taxpayers with passive income.

Calculation

Tax Rate x Allowable Losses

Savings Ranges

Limits depend on income phase outs and professional status

Preparation, Planning, or Implementation

Planning, Implementation

Applicable Years

Current and Future Years

Sources

IRS Publication 925

STRATEGY: FICA TIP CREDIT

Description

The Tip Tax Credit is a credit that equal to the social security and Medicare taxes paid on the tips received by the employees. The business can claim this credit. No credit is given for tips used to meet the federal minimum hourly wage rate. A business cannot claim both the credit AND the expense deduction. If the business claims the credit, they must reduce social security and Medicare tax deductions accordingly. The credit reduces tax liability dollar for dollar and passes through to partners or shareholders of partnerships and S corporations.

Calculation

% of W-2 Wage

Savings Ranges

$2,000 - $8,000

Preparation, Planning, or Implementation

Planning, Implementation

Applicable Years

Prior, Current and Future Years

Sources

IRC Section 45b

STRATEGY: RESEARCH & DEVELOPMENT TAX CREDIT

Description

The Research & Experimentation Tax Credit or R&D Tax Credit is a general business tax credit for companies that incur research and development (R&D) costs in the United States. In order to qualify, they must:

- Be Technological in Nature
- Be Used for a Permitted Purpose
- Involve the Elimination of Uncertainty
- Involve a Process of Experimentation

Only certain direct and indirect expenses will qualify for the credit. In order to claim the credit, it must be on a timely filed tax return (including extensions) and can offset either income taxes or payroll taxes.

The following industries see the R&D Credit the most (this is not an all inclusive list)

- Manufacturing & Fabrication
- Software Development
- Engineering
- Architecture
- Life Sciences & Pharmaceutical
- Machining
- Aerospace & Defense
- Food Science
- Tool & Die Casting
- Foundries
- Automobile
- Chemical & Formula

Calculation	Savings Ranges
% of Qualified Expenses	10-50% of current premium

Preparation, Planning or Implementation	Applicable Years
Planning, Implementation	Prior, Current and Future Years

Sources
IRC Sec 41(a) - (h)

STRATEGY: SELF EMPLOYED HEALTH INSURANCE PREMIUM CREDIT

Description

Self Employed Health Insurance Premium Credit was created by The Affordable Care Act to encourage and benefit small employers who provide health coverage for their employees. It is also known as The Small Business Health Care Tax Credit. To qualify, the employer must have less that 25 full time employees, employees must have average wages of $50,000 (adjusted for inflation), and the employer must pay a portion of health insurance for employees. Currently this credit is only available for up to two years, is claimed against income tax, and is claimed on Form 8941.

Calculation

% of Health Ins paid, < 25 employees, up to 50% of premiums

Savings Ranges

$2,000 - $8,000

Preparation, Planning, or Implementation

Planning, Implementation

Applicable Years

Current and Future Years

Sources

IRC Section 36b; Notice 2010-82

STRATEGY: WORK OPPORTUNITY TAX CREDIT

Description

The Work Opportunity Tax Credit is a Federal tax credit available to employers for hiring individuals from certain target groups who have consistently faced significant barriers to employment. You must survey an employee when you hire the employee (Prescreen), then you must file Form 8850 timely. The last step is for you to take the credit on your income taxes (this does not offset payroll taxes). The individuals qualified for the WOTC are as follows:

- Families on Food Stamps
- Families with LT or ST Temp Assistance (with dependents)
- Qualified Veterans
- Qualified Ex-Felons
- Individuals Completing Vocational Rehab programs
- Empowerment Zone Youths
- Limited Unemployment Recipients

Calculation

% of W-2 wages for Qualified Employees

Savings Ranges

$2,000 - $8,000

Preparation, Planning, or Implementation

Planning, Implementation

Applicable Years

Present - 12/31/2019

Sources

IRC Section 51; Form 8850 Instructions

ADVANCED STRATEGIES

STRATEGY: DEFERRED COMPENSATION

Description

Deferred compensation is an arrangement in which a portion of an employee's income is paid out at a later date after which the income was earned. Examples of deferred compensation include pensions, retirement plans, and employee stock options.

Calculation

Compensation Deferred x Tax Rate

Savings Ranges

$1,000 - Unlimited

Preparation, Planning, or Implementation

Planning, Implementation

Applicable Years

Current and Future Years

Sources

IRC Section 457b

STRATEGY: TAX LOSS HARVESTING (INVESTMENTS)

Description

Tax loss harvesting is the practice of selling a security that has experienced a loss. By realizing, or “harvesting” a loss, investors are able to offset taxes on both gains and income.

Calculation

Capital Gains Tax Rate x Offset Income

Savings Ranges

$3,000 - Unlimited (to extent of gains)

Preparation, Planning, or Implementation

Planning, Implementation

Applicable Years

Current and Future Years

Sources

IRC Section 1211, IRC Section 1222

STRATEGY: CONSERVATION EASEMENTS

Description

A conservation easement is an investment in a qualified private land conservation organization or government to constrain, as to a specified land area, the exercise of rights otherwise held by a landowner so as to achieve certain conservation purposes

Calculation

Qualified investors can contribute up to 50% of their AGI. The tax calculation is complex and varies from project to project

Savings Ranges

90-120% of current tax

Preparation, Planning, or Implementation

Preparation, Planning

Applicable Years

Current Year

Subcontractor

You may need to partner with a financial advisor

Sources

IRC 170(h), IRC 1.170A-14

STRATEGY: COOPERATIVES

Description

Whereas cooperatives in general are held liable for federal income taxes but can deduct patronage dividends from their gross income for tax purposes, certain specified types of cooperative organizations enjoy an original exemption from income tax liability.

Calculation

20% x Tax Rate x Sales to Co-op

Savings Ranges

$1,000 - Unlimited

Preparation, Planning, or Implementation

Preparation, Planning

Applicable Years

Current and Future Years

Sources

IRC Section 101

STRATEGY: FAMILY OFFICE MANAGEMENT COMPANY

Description

For a more active family wealth planning structure, establish a separate family office management company which contracts with the various family holding companies and operating businesses. Income from the management contracts is revenue to the management company which, in turn, can be converted into salaries, benefits, and business expenses for family members in varying tax brackets.

Calculation

0-100% deduction x income tax rate

Savings Ranges

0-100% depending on relative income tax rates and deductibility of expense

Preparation, Planning, or Implementation

Preparation, Planning

Applicable Years

Current and Future Years

Subcontractor

You may need to partner with an attorney

Sources

Code Section 162

The Lender's Bagels Case (Lender Management, LLC v. Commissioner)

STRATEGY: REVENUE STREAM BIFURCATION

Description

There can often be advantages in separating revenue streams into different entities. For example, under the TCJA, certain services are not favored (such as accountants). However, payroll does not fall in that category. Splitting payroll revenue into its own company could have the benefit of increase the Section 199a deduction.

Calculation

Depends on Structure & Stacked Benefits

Savings Ranges

$1,000 - Unlimited

Preparation, Planning, or Implementation

Preparation, Planning

Applicable Years

Current and Future Years

Sources

Code Section 162

The Lender's Bagels Case (Lender Management, LLC v. Commissioner)

STRATEGY: CHARITABLE LLCS

Description

A CLLC is a philanthropic strategy whereby the donor funds an LLC with a certain amount of assets and donates a significant portion of the LLC units to a qualified charitable organization. The donor receives a charitable tax deduction equal to the fair market value of the donated LLC units. Additionally, any income generated by the assets transferred into the LLC will be reported proportionally by the members, which means a significant majority of the LLC's income will be reported by the tax-exempt charitable organization. The client generally maintains significant control over the day-to-day operations of the LLC and may elect to manage the assets accordingly. Due to the dual tax benefit, this strategy works best when funded with highly appreciated assets.

Calculation

A CLLC is a complex planning strategy and calculation that should be done with an experienced Tax Attorney

Savings Ranges

Up to 99% of cap gains tax with tax free growth of assets

Preparation, Planning, or Implementation

Preparation, Planning

Applicable Years

Current Year

Subcontractor

You may need to partner with a financial advisor

Sources

IRC 170, US v Michael L Myer

STRATEGY: FREEZE TRANSACTIONS WITH GRATS AND IDGTS

Description

In addition to using one's lifetime exemption (currently $11.18M), taxpayers can achieve significant gifting leverage through the use of various "freeze transactions." In particular, taxpayers can gift assets to a Grantor Retained Annuity Trust ("GRAT"), or sell assets to an Intentionally Defective Grantor Trust ("IDGT"). In each structure, the settlor of the trust retains an income stream in an amount equal to the initial value of the asset transfer. Since the retained benefit equals the amount transferred, the net value of the transfer is $0, and therefore there is no gift. Consequently, the value of the asset is "frozen" with respect to the transferor's estate, and all appreciation thereon inures to the benefit of the transferee. Such transfers can be further leveraged through the use of family LLC interests and valuation discounts.

Calculation

40% of the discount and appreciation of the assets in the trust

Savings Ranges

40% of the discount and appreciation of the assets in the trust

Preparation, Planning, or Implementation

Preparation, Planning

Applicable Years

Current and Future Years

Subcontractor

You may need to partner with an attorney

Sources

Code Sections 671, 2702, 7520

Chapter 14 Special Valuation Rules

EXIT &
CAPITAL GAINS

STRATEGY: INSTALLMENT SALES

Description

An installment sale coupled with a monetization loan, [allowing the seller] to take advantage of tax deferral on the asset sale, which is a permitted result under I.R.C. §§ 453 and 453A.

Calculation

An Installment Sale is a complex planning strategy and calculation that should be done with an experienced specialist.

Savings Ranges

Time value of money

Preparation, Planning, or Implementation

Preparation, Planning

Applicable Years

Current or Future Years

Subcontractor

You may need to partner with a financial advisor

Sources

IRC 453

STRATEGY: DEFERRED GAINS- DST

Description

The Deferred Sales Trust is a legal contract between you and a third-party trust in which you sell real or personal property or a business to the Deferred Sales Trust in exchange for the Deferred Sales Trust's contractual promise to pay you a certain amount over a predetermined future period of time in the form of an installment sale note or promissory note. It is often referred to as a "self-directed note" because you have control over the terms of the note. The Deferred Sales Trust gives you the ability to control your capital gains tax exposure, reinvestment terms, and installment payments made from the trust.

Calculation

Capital Gains Rate x Avoided Gain

Savings Ranges

$1,000 - Unlimited

Preparation, Planning, or Implementation

Planning or Implementation

Applicable Years

Current and Future Years

Sources

IRC Sections 1031

Rev. Rul. 2004-86

STRATEGY: QSBS ELECTION

Description

QSBS is stock in a C corporation that meets the conditions of being a qualified small business corporation (QSBC). Rules applying to QSBS were created to urge investment in certain small businesses by allowing investors the opportunity to avoid tax on some or all of their gain from the disposition of QSBS.

Calculation

Capital Gains Rate x Avoided Gain

Savings Ranges

$1,000 - Unlimited

Preparation, Planning, or Implementation

Planning, Implementation

Applicable Years

Possibly Prior, Current and Future Years

Sources

IRC Section 1202

STRATEGY: ESOP / ESOT

Description

An employee stock ownership plan (ESOP) or employee stock option trust (ESOT) is an employee-owner program that provides a company's workforce with an ownership interest in the company. In an ESOP, companies provide their employees with stock ownership, often at no upfront cost to the employees. ESOPs have a number of significant tax benefits, the most important of which is that contributions of stock are tax-deductible. That means companies can get a current cash flow advantage by issuing new shares or treasury shares to the ESOP.

Calculation

Capital Gains Rate x Avoided Gain

Savings Ranges

$1,000 - Unlimited

Preparation, Planning, or Implementation

Planning, Implementation

Applicable Years

Current and Future Years

Sources

IRC Section 401(a)

STRATEGY: ESOPS

Description

An ESOP is a type of qualified, defined contribution plan designed to invest primarily in the stock of the sponsoring employer. ESOPs are “qualified” in the sense that the ESOP’s sponsoring company, the selling shareholder and participants receive various tax benefits. ESOPs are often used as a corporate finance strategy to create a liquid marketplace for closely held stock which provides a viable tax advantaged exit strategy for shareholders under Section 1042. A common misconception is that by installing an ESOP an owner has to give up control of their company to their employees, which isn’t the case. A properly structured ESOP allows an owner to sell some or all of their privately held stock, creating liquidity, while still maintaining 100% control of the company.

Calculation

Employer contributions to the ESOP generally are tax-deductible up to a limit of 25% of covered payroll (this limit also includes employer contributions to other defined contribution plans).

Savings Ranges

The saving ranges of ESOPs vary and an ESOP specialist should be consulted on each specific situation.

Preparation, Planning, or Implementation

Preparation, Planning

Applicable Years

Current and Future Years

Subcontractor

You may need to partner with a financial advisor

Sources

IRC Section 401(a)

GIFT & ESTATE PLANNING

STRATEGY: CHARITABLE REMAINDER TRUSTS

Description

A charitable remainder trust is a “split interest” gifting vehicle that allows you to make contributions to the trust and be eligible for a partial tax deduction, based on the CRT’s assets that will pass to charitable beneficiaries. You can name yourself or someone else to receive a potential income stream for a term of years, no more than 20, or for the life of one or more non-charitable beneficiaries, and then name one or more charities to receive the remainder of the donated assets.

Calculation

Capital Gains Rate x Avoided Gain

Savings Ranges

$1,000 - Unlimited

Preparation, Planning, or Implementation

Planning, Implementation

Applicable Years

Current and Future Years

Sources

IRC Section 664(d)(2); IRC Sections 664(d)(1) and 453(b); Reg. 1.664-2(b)] Reg. 1.664-3(b)
IRC Section 170(b)(1)(A) IRC Section 170(d)(1)(A) Regs. 20.2031-7A(f); 1.664-4

STRATEGY: FAMILY TRUSTS

Description

A family trust, sometimes called a family trust fund, is a legal device used to avoid probate, avoid or delay taxes, and protect assets.

Revocable Trust. This type of trust allows the grantor to cancel, or revoke, the trust. If it is revoked, the assets are transferred back to the grantor. Of course, once the grantor dies, the trust becomes irrevocable. A revocable trust is most often used to avoid probate.

Irrevocable Trust. This type of trust precludes the grantor from getting the trust assets back, unless the trustee and the beneficiaries agree. The trust agreement will clearly state that it is irrevocable. Irrevocable trusts also avoid probate, and are used to gain additional benefits, such as to avoid taxes, protect assets from creditors, or allow the grantor to qualify for certain public benefits (such as Medicaid).

Calculation

Capital Gains Rate x Avoided Gain

Savings Ranges

$1,000 - Unlimited

Preparation, Planning, or Implementation

Planning, Implementation

Applicable Years

Current and Future Years

Sources

IRC Section 672-675

TAX CUTS & JOBS ACT

STRATEGY: SECTION 199A

Description

Section 199A of the Internal Revenue Code provides many taxpayers a deduction for qualified business income from a qualified trade or business operated directly or through a pass-through entity. The deduction has two components.

Eligible taxpayers may be entitled to a deduction of up to 20 percent of qualified business income (QBI) from a domestic business operated as a sole proprietorship or through a partnership, S corporation, trust or estate. For taxpayers with taxable income that exceeds $315,000 for a married couple filing a joint return, or $157,500 for all other taxpayers, the deduction is subject to limitations such as the type of trade or business, the taxpayer's taxable income, the amount of W-2 wages paid by the qualified trade or business and the unadjusted basis immediately after acquisition (UBIA) of qualified property held by the trade or business. Income earned through a C corporation or by providing services as an employee is not eligible for the deduction.

Eligible taxpayers may also be entitled to a deduction of up to 20 percent of their combined qualified real estate investment trust (REIT) dividends and qualified publicly traded partnership (PTP) income. This component of the section 199A deduction is not limited by W-2 wages or the UBIA of qualified property.

The sum of these two amounts is referred to as the combined qualified business income amount. Generally, this deduction is the lesser of the combined qualified business income amount and an amount equal to 20 percent of the taxable income minus the taxpayer's net capital gain. The deduction is available for taxable years beginning after Dec. 31, 2017. Most eligible taxpayers will be able to claim it for the first time when they file their 2018 federal income tax return in 2019. The deduction is available regardless of whether an individual itemizes their deductions on Schedule A or takes the standard deduction.

Calculation	Savings Ranges
See entity selector spreadsheet	$3,000 - No fixed cap (unlimited)

Preparation, Planning or Implementation	Applicable Years
Planning	Current and Future Years

Sources

IRC Sections: 199A(b); 199A(e)(2); 99(e)(2)(A) 199A(b)(3); 199A(d)(3); 199(e)(2)(A) 199A(b)(3); 199A(d)(3); 199A(b)(3)(A) 199A(b)(2); 199A(b)(3)(A) 199A(d)(3)(A)

STRATEGY: C-CORP TAX RATE

Description

In the new Tax Cuts and Jobs Act, the C-Corp tax rate is down from 35% to 21%.

Calculation

The difference in the individuals tax rate and the tax rate of 21% assuming no dividends during the period

Savings Ranges

Unlimited

Preparation, Planning, or Implementation

Planning, Implementation

Applicable Years

Current and Future Years

Sources

IRC Section 13001(a)

STRATEGY: OPPORTUNITY ZONE CREDIT

Description

Opportunity Zones are designed to spur economic development by providing tax benefits to investors. First, investors can defer tax on any prior gains until the earlier of the date on which an investment is sold or exchanged, or December 31, 2026, so long as the gain is reinvested in a Qualified Opportunity Fund. Second, if the investor holds the investment in the Opportunity Fund for at least ten years, the investor would be eligible for an increase in basis equal to the fair market value of the investment on the date that the investment is sold or exchanged.

Calculation

Gains Invested in QOZF x Capital Gains Tax Rate

Savings Ranges

Unlimited

Preparation, Planning, or Implementation

Planning, Implementation

Applicable Years

Current and Future Years

Sources

TCJA, IRC Section 1400Z-2

STRATEGY: FAVORABLE DEPRECIATION RULES

Description

- Section 179: increase limit to $1,000,000 from $510,000
- Section 179: expansion of qualified improvement property
- Section 179: now includes lodging furnishings
- Bonus Depreciation: increased to 100% from 50% (first year)
- Bonus Depreciation: eliminates distinction between qualified restaurant, leasehold improvement and retail property.

Calculation

Additional Depreciation x Tax Rates

Savings Ranges

Up to specific asset acquisition limits

Preparation, Planning, or Implementation

Preparation, Planning

Applicable Years

Prior, Current and Future Years

Sources

IRC Section 179(f)(1) 2018, IRC Section 179(f)(2) 2018, IRC Sec. 179(d)(1) 2018, IRC Sec. 179(b)(3)

STRATEGY: NON-GRANTOR TRUSTS AND SECTION 199A

Description

The inclusion of non-grantor trusts in corporate planning structures has become more attractive under the new Tax Cuts and Jobs Act ("TCJA"). Specifically, the income limitations under 199A for certain flow-through entities create an incentive to have multiple owners under the $157,500 income threshold to benefit from a 20% deduction on qualified business income.

Calculation

Federal and state income tax rate x 20% x qualified business income
(States may vary on QBID treatment)

Savings Ranges

Up to 20% of federal and state income tax

Preparation, Planning, or Implementation

Preparation, Planning

Applicable Years

Current Year and Future Years

Subcontractor

You may need to partner with an attorney

Sources
Code Section 199A

STRATEGY: NON-GRANTOR TRUSTS AND SECTION 1202

Description

The inclusion of non-grantor trusts in corporate planning structures has become more attractive under the new Tax Cuts and Jobs Act ("TCJA"). Specifically, with its new 21% flat tax rate, the C Corporation has become more attractive for business owners. Consequently, Section 1202, which only applies to C Corporations and affords taxpayers a 100% exclusion on capital gains, will become more prevalent as a private business ownership strategy. Section 1202 allows taxpayers to avoid capital gains tax up to $10M for a qualified trade or business. For businesses expecting a gain in excess of these amounts, non-grantor trusts can be used to create multiple shareholders, each of which are entitled to their own separate $10M exemption.

Calculation

20% of realized gain

Savings Ranges

Up to 20% of federal and state income tax

Preparation, Planning, or Implementation

Preparation, Planning

Applicable Years

Current Year and Future Years

Subcontractor

You may need to partner with an attorney

Sources

Section 1202

STRATEGY: C CORPS AND THE “GILTI” TAX

Description

Under the Tax Cuts and Jobs Act, certain shareholders of foreign corporations must include all Global Intangible Low-Tax Income (“GILTI”) in their income, regardless of whether it is distributed in the form of dividends. This has changed the landscape for controlled foreign corporations which used to benefit from deferral of income by operating out of no- or low-tax jurisdictions. To reduce such tax, a domestic C Corporation can be layered in to repatriate the foreign income and benefit from a 50% Dividends Received Deduction. In order for the provision to apply, the taxpayer must own 10% or more of the foreign corporation.

Calculation

Federal and state income tax x 50% x dividends received

Savings Ranges

Results in an effective tax rate of 10.5% on dividends received

Preparation, Planning, or Implementation

Preparation Planning

Applicable Years

Current Year and Future Years

Subcontractor

You may need to partner with an attorney

Sources

Code Sections 957 & 245A

STRATEGY: C CORPS AND FDII

Description

To prevent the proliferation of offshore intellectual property holding companies, the Tax Cuts and Jobs Act created an incentive to keep intellectual property in the U.S. and license the intellectual property abroad. Specifically, through the use of a C Corporation holding company, licensed intellectual property which creates Foreign Derived Intangible Income ("FDII") is entitled to a 37.5% deduction of all such income for the tax years 2018-2025. After 2025, the FDII deduction will be reduced to 21.875%.

Calculation

Federal and state income tax x 37.5% (2018-2025)
Federal and state income tax x 21.875% (after 2025)

Savings Ranges

Effective rate until 2025 = 13.125%
Effective rate after 2025 = 16.406%

Preparation, Planning, or Implementation

Preparation, Planning

Applicable Years

Current Year and Future Years

Subcontractor

You may need to partner with an attorney

Sources
Code Section 250

ASSET PROTECTION

STRATEGY: FAMILY LIMITED LIABILITY COMPANY ("FLLC")

Description

Establish a family limited liability company to own various family investment assets. The FLLC can be implemented for both tax and non-tax benefits. Tax benefits include shifting of income to family members in lower tax brackets, offsetting of family gains with family losses in the aggregate, offsetting of income with expenses, and minimization of estate tax through discounted gifting and asset freeze techniques. Non-tax benefits include asset protection, centralization of ownership and management, ease of gifting, retention of wealth, and rearing of descendants.

Calculation

Income tax: 10-100% x income tax rate
Estate tax: 40-60% x value of gifting LLC interests and all appreciation thereon

Savings Ranges

Income tax: 10-100% depending on relative income tax rates, deductibility of expense, and availability of gains and losses
Estate tax: 40-60% x value of gifting LLC interests and all appreciation thereon

Preparation, Planning, or Implementation

Preparation, Planning

Applicable Years

Current Year and Future Years

Subcontractor

You may need to partner with an attorney or valuation expert

Sources
Code Sections 162, 2036, 2701-2704

STRATEGY: EXEMPT ASSET PLANNING WITH ERISA PLANS

Description

ERISA Plans afford a taxpayer the opportunity to place significant assets in an asset-protected, tax-deferred vehicle, which also has the benefit of avoiding probate. Maximizing defined contribution plans (such as 401(k) Plans), and for older clients, defined benefit plans (such as "Cash Balance Plans"), allows for significant pre-tax allocations of income with tax-deferred growth in a vehicle that is exempt from the reach of creditors.

Calculation

Contribution amount x individual's federal and state tax rate

Savings Ranges

10-37% + state tax

Preparation, Planning, or Implementation

Preparation, Planning

Applicable Years

Current Year and Future Years

Subcontractor

You may need to partner with an attorney for plan and documents and a financial advisor for asset management

Sources

Code Sections 401 & 403

STRATEGY: EXEMPT ASSET PLANNING WITH PRIVATE PLACEMENT LIFE INSURANCE ("PPLI")

Description

Life insurance can be used as a tax-efficient portfolio management tool in addition to death benefit planning. Properly formed, life insurance can grow tax-free, allow for tax-free loans, and avoid income tax upon the receipt of a death benefit. In addition, in most states, life insurance can be exempt from the reach of creditors in its entirety or a portion thereof. With respect to high net worth clients, a special form of insurance known as Private Placement Life Insurance has been established to serve as a low-cost, tax-free portfolio wrapper. In effect, PPLI can convert a tax-inefficient portfolio into a tax-free portfolio with a corresponding death benefit. PPLI can also be structured to escape estate tax, as well, through the use of an Irrevocable Life Insurance Trust and/or a fully-gifted family limited liability company. Foreign PPLI can be useful for U.S. and non-U.S. taxpayers when combined with an offshore asset protection trust. For U.S. taxpayers, this provides superior asset protection, and for non-U.S. taxpayers, this is a very effective pre-immigration planning tool to avoid taxation on worldwide income.

Calculation

Portfolio earnings x federal and state income tax rate - policy expenses

Savings Ranges

10-37% + state tax

Preparation, Planning, or Implementation

Planning

Applicable Years

Current Year and Future Years

Subcontractor

You may need to partner with an attorney for plan and documents
and an insurance advisor

Sources

Code Sections 7701 & 817(h)

STRATEGY: EXEMPT ASSET PLANNING WITH PRIVATE PLACEMENT VARIABLE ANNUITIES ("PPVA")

Description

A Variable Annuity can be used as a tax-efficient portfolio management tool in addition to a retirement planning vehicle. Properly formed, the investment assets in a Variable Annuity can grow tax-free and can be exempt from the reach of creditors. With respect to high net worth clients, a special form of annuity known as a Private Placement Variable Annuity has been established to serve as a low-cost, tax-free portfolio wrapper. In effect, PPVA can convert a tax-inefficient portfolio into a tax-free portfolio. A foreign PPVA can be useful for U.S. and non-U.S. taxpayers when combined with an offshore asset protection trust. For U.S. taxpayers, this provides superior asset protection, and for non-U.S. taxpayers, this is a very effective pre-immigration planning tool to avoid taxation on worldwide income.

Calculation

Portfolio earnings x individual federal and state income tax rate - policy expenses

Savings Ranges

10-37% + state tax

Preparation, Planning, or Implementation

Planning

Applicable Years

Current Year and Future Years

Subcontractor

You may need to partner with an attorney for plan and documents and an insurance/annuity advisor

Sources

Code Sections 7702 & 817(h)

STRATEGY: OFFSHORE ASSET PROTECTION TRUST (“OAPT”)

Description

For clients seeking the highest form of asset protection and diversification away from the U.S., an Offshore Asset Protection Trust affords the most protective asset protection laws available for high net worth clients. There are no inherent tax benefits to an OAPT, and by definition, an OAPT settled by a U.S. taxpayer is treated as a grantor trust. However, OAPTs are commonly combined with Private Placement Life Insurance (“PPLI”) and Private Placement Variable Annuities (“PPVA”) to establish a fully asset-protected and tax-free investment structure. Implementation of an OAPT carries with it annual foreign compliance and disclosure requirements.

Calculation

N/A unless combined with PPLI and PPVA

Savings Ranges

N/A unless combined with PPLI and PPVA

Preparation, Planning, or Implementation

Planning

Applicable Years

Current Year and Future Years

Subcontractor

You may need to partner with an attorney (Lawyer
Foreign Trustee)

Sources

Code Sections 671, 678, 679

INTERNATIONAL

STRATEGY: PUERTO RICO ACT 20 & 22

Description

In order to promote exportation of services, formation of new businesses, and relocation of U.S. taxpayers to Puerto Rico, Acts 20 & 22 provide significant corporate and personal tax exemptions on income. Specifically, the provisions of Act 20 & 22 provide for a flat 4% corporate tax rate and a 100% tax exemption on profits, dividends, property taxes, and capital gains. In order to qualify for these exemptions, an individual must be a bona fide resident, and the business must be a legitimate trade or business with local employment. Strict rules apply for such qualifications.

Calculation

Act 20: 81-100% x corporate tax rate
Act 22: 100% x income, dividends, and capital gains; 90% x property taxes

Savings Ranges

Act 20: 81-100%
Act 22: 90-100%

Preparation, Planning, or Implementation

Preparation, Planning

Applicable Years

Current Year and Future Years

Subcontractor

You may need to partner with an attorney

Sources

Puerto Rico Act 20
Puerto Rico Act 22

STRATEGY: U.S. VIRGIN ISLANDS EDC PROGRAM

Description

In order to promote business, investment, and residency in the U.S. Virgin Islands, the Economic Development Commission ("EDC") created the following U.S. Virgin Islands tax benefits: 90% deduction in both corporate and personal income tax, and 100% exemption on local gross receipts, business property, and excise tax payments, among other economic benefits. In order to qualify for these benefits, the taxpayer must be a bona fide resident, present in the U.S. Virgin Islands in excess of 183 days.

Calculation

Federal and state income tax x 90%

Savings Ranges

90%

Preparation, Planning, or Implementation

Preparation, Planning

Applicable Years

Current Year and Future Years

Subcontractor

You may need to partner with an attorney

Sources

Code Sections 934 & 936

ASSET GIFT & FREEZE

STRATEGY: STRAIGHT GIFT

Description

A straight gift takes advantage of a lower valuation and the higher exemption to simply transfer the asset to the next generation. No need to leverage lower interest rates. Transfers both the current value and the appreciation. Don't gift direct asset – use an LLC and a trust! LLCs can provide a reasonable discount (25-35%) on the value of the underlying asset.

Calculation

(40% + state estate tax rate) x (discounted value of asset plus appreciation)

Savings Ranges

40%-60% of asset and appreciation

Preparation, Planning, or Implementation

Planning

Applicable Years

Current Year and Future Years

Subcontractor

You may need to partner with an attorney

Sources

Code Sections 2001-2210; 2501-2524; 2701-2704

STRATEGY: INTRA-FAMILY LOAN

Description

Senior generation makes a loan to junior generation to enable junior generation to invest in an asset that is likely to appreciate. The loan must pay the senior generation a minimum interest rate at least equal to the Applicable Federal Rate, which is a greatly reduced rate published monthly by the IRS. As long as investment outperforms the AFR, all of the appreciation inures to the benefit of the junior generation and is removed from senior generation's estate. This is a freeze transaction which transfers only the appreciation and not the value of the asset (the principal).

Calculation

(40% + state estate tax rate) x appreciation of asset in excess of AFR

Savings Ranges

40% of appreciation on asset (over AFR)

Preparation, Planning, or Implementation

Planning

Applicable Years

Current Year and Future Years

Subcontractor

You may need to partner with an attorney

Sources

Code Sections 1274; 2001-2210; 2501-2524

STRATEGY: STRAIGHT SALE

Description

If the value of an asset has dropped significantly so that there is little to no gain, and the junior generation has liquidity, sell the asset to the junior generation in a cash transaction. With a cash closing, there is no need for any interest to be paid. All appreciation in excess of the cash paid at closing inures to the benefit of the junior generation and is removed from senior generation's estate. Don't sell asset directly - sell through an LLC, which can provide a further reasonable discount (25-35%) on the value of the underlying asset.

Calculation

(40% + state estate tax rate) x appreciation of discounted asset

Savings Ranges

40%-60% of appreciation on asset

Preparation, Planning, or Implementation

Planning

Applicable Years

Current Year and Future Years

Subcontractor

You may need to partner with an attorney

Sources

Code Sections 2001-2210; 2501-2524; 2701-2704

STRATEGY: INSTALLMENT SALE

Description

An installment sale is a form of seller-financing. If the junior generation does not have sufficient liquidity, senior generation sells an asset to the junior generation with an installment structure to be paid over a period of years. This is useful especially when a liquidation event is expected in the future. The junior generation must pay a minimal interest rate on the unpaid balance equal at least to the Applicable Federal Rate, which is a greatly reduced rate published monthly by the IRS. The rate used will depend on the term of the installment sale. Short-term AFR (currently, .18%) is used for terms up to 3 years; mid-term AFR (currently, .43%) is used for terms up to 9 years; long-term AFR (currently, 1.01%) is used for terms greater than 9 years. All appreciation in excess of the AFR used will inure to the benefit of the junior generation and be removed from senior generation's estate. Don't sell asset directly - sell through an LLC, which can provide a further reasonable discount (25-35%) on the value of the underlying asset.

Calculation

(40% + state estate tax rate) x appreciation of discounted asset in excess of AFR

Savings Ranges

40%-60% of appreciation on asset (over AFR)

Preparation, Planning, or Implementation

Planning

Applicable Years

Current Year and Future Years

Subcontractor

You may need to partner with an attorney

Sources

Code Sections 1274; 2001-2210; 2501-2524; 2701-2704

STRATEGY: INSTALLMENT SALE TO DEFECTIVE TRUST

Description

If an asset has gain, sell to an Intentionally Defective Grantor Trust for the benefit of the junior generation. The trust is an effective transfer for estate tax purposes, but is a "defective" transfer for income tax purposes as it is purposefully set up as a grantor trust. As a result, there is no gain to the senior generation upon sale, and no tax upon receipt of principal and interest payments. All appreciation in excess of the AFR used will inure to the benefit of the junior generation and be removed from senior generation's estate. To establish an IDGT, the general rule of thumb is that the senior generation should gift seed capital to the trust at least equal to 10% of the value of the asset. As a grantor trust, the senior generation will be responsible for paying the income taxes of the IDGT, which is another form of wealth transfer to the junior generation, but is not treated as a gift. If the senior generation no longer wishes to pay the income taxes of the IDGT, there is a one-time option to "flip the switch" and convert the trust into a non-grantor trust. Don't sell asset directly - sell through an LLC, which can provide a further reasonable discount (25-35%) on the value of the underlying asset, and helps to reduce the amount of the seed capital required.

Calculation

(40% + state estate tax rate) x appreciation of discounted asset in excess of AFR; also; (40% + state estate tax rate - effective income tax rate) x annual income of Trust

Savings Ranges

40%-60% of appreciation on asset (over AFR);
10%-30% of annual income

Preparation, Planning, or Implementation

Planning

Applicable Years

Current Year and Future Years

Subcontractor

You may need to partner with an attorney

Sources

Code Sections 671-678; 1274; 2001-2210; 2501-2524; 2701-2704

STRATEGY: GIFT TO A GRANTOR RETAINED ANNUITY TRUST

Description

Rather then selling an asset as part of a freeze transaction, a Grantor Retained Annuity Trust is a structure whereby the senior generation makes a gift of an asset (that is likely to appreciate) into a trust for the benefit of the junior generation, and the trust provides an annuity stream to the senior generation equal to the value of the asset transferred. The GRAT is required to add to the annuity payment an amount equal to the 7520 Rate (currently, .6%), published monthly by the IRS. All appreciation in excess of the principal gift amount plus the 7520 Rate will inure to the benefit of the junior generation and be removed from senior generation's estate. Since this is structured as a gift, no seed capital is required. Typically structured as a short-term GRAT for 2-3 years, with multiple GRATs layered together, to assist with diversification and to minimize risk of inclusion in the estate in the event of the death of the senior generation during the GRAT term. Don't gift asset directly - gift through an LLC, which can provide a further reasonable discount (25-35%) on the value of the underlying asset.

Calculation

(40% + state estate tax rate) x appreciation of discounted asset in excess of 7520 Rate

Savings Ranges

40%-60% of appreciation on asset (over 7520 Rate)

Preparation, Planning, or Implementation

Planning

Applicable Years

Current Year and Future Years

Subcontractor

You may need to partner with an attorney

Sources

Code Sections 671-678; 2001-2210; 2501-2524; 2701-2704; 7520

STRATEGY: GIFT TO A CHARITABLE LEAD TRUST

Description

When the senior generation has current charitable intent, is seeking a tax deduction, but wants the assets to ultimately go to the children, a Charitable Lead Trust is the ideal charitable tool when 7520 Rate is low (currently, .6%). In a CLT structure, the senior generation gifts assets to a charitable trust which provides a current income stream to charity for the stated term, and upon expiration, distributes the remaining assets to the junior generation. The senior generation receives a charitable income tax deduction upon the initial transfer, and all appreciation in excess of the principal contributed plus the 7520 Rate will inure to the benefit of the junior generation. Further, the asset is removed from the estate of the senior generation upon inception. Gift the asset directly to the CLT (not through an LLC), so as to maximize the value going in, and thus maximize the resulting charitable deduction.

Calculation

(40% + state estate tax rate) x (value of asset plus appreciation in excess of 7520 Rate); also,
Effective income tax rate x value of charitable interest for upfront charitable deduction purposes

Savings Ranges

40% of asset value + appreciation (over AFR); 5-20% income tax savings due to charitable deduction

Preparation, Planning, or Implementation

Planning

Applicable Years

Current Year and Future Years

Subcontractor

You may need to partner with an attorney

Sources

Code Sections 170; 2001-2210; 2501-2524; 7520

TAX ADVANTAGED WEALTH MANAGEMENT

STRATEGY: LOST HARVESTING

Description

Loss harvesting is a strategy where investments with unrealized losses are sold, or realized, to minimize gains from sale of other investments. For example, if a client sells some of their Apple stock and have a $10,000 capital gain, their wealth manager can identify other investments that are trading at a loss enough to offset the $10,000 gain. It's often an opportunity for a client to exit a bad position or to stay in a particular industry but change investments. Wash sale rules prevent the client from repurchasing the same investment, but they could purchase a similar investment to give them the opportunity to participate in upside.

Calculation

Extent of usable losses times client capital gains rate

Savings Ranges

$3,000+

Preparation, Planning, or Implementation

Planning or Implementation

Applicable Years

Current Year and Future Years

Subcontractor

You may need to partner with a financial advisor.

Sources

Code Sections 1222

STRATEGY: SOLAR

Description

Self-Owner Life and Retirement is a strategy where the business can pay a bonus to the owner or key employees and direct that bonus to a tax efficient product, normally an Indexed Universal Life policy. The IUL allows investments to grow tax free and distributions for retirement (or other uses) can often be made tax free. As a non-qualified retirement plan, SOLAR plans do not need to be offered to all employees.

Calculation

Combination of plan growth times tax rate and expected retirement income times expected tax rate

Savings Ranges

$10,000+

Preparation, Planning, or Implementation

Planning or Implementation

Applicable Years

Current Year and Future Years

Subcontractor

You may need to partner with a financial advisor.

Sources

Code Sections 79 & 162

STRATEGY: PREMIUM FINANCE

Description

Premium finance is an advanced strategy that allows the business to take a loan from a bank and then either distribute or loan that money to the business owner(s). The loan proceeds can then be used to fund and front-load premiums in a life insurance product. The most common product used is an Indexed Universal Life policy. The amount cash value will grow tax free and policy loans can normally be taken tax free for retirement. Premium finance can also be used as an estate planning tool with or without generating retirement income streams. The loan(s) can be repaid at any time via a policy loan or other available cash. Policy loans are typically settled from the death benefit.

Calculation

Policy premiums to captive deducted each year times tax rate + arbitrage on dividend tax rate vs ordinary income tax rate on dividends paid from the captive

Savings Ranges

$25,000+

Preparation, Planning, or Implementation

Planning or Implementation

Applicable Years

Current Year and Future Years

Subcontractor

You may need to partner with a financial advisor.

Sources

Code Sections 79 & 162

STRATEGY: REAL ESTATE

Description

Direct investment in real estate can offer tax advantages through the combined power of leverage and depreciation. An investor can invest 25-30% equity into a deal while the remainder is financed. However, the investor receives depreciation deductions on the full extent of depreciable property. This often leads to positive cash flow with passive tax losses. Cost segregation can further amplify the tax benefits of real estate as a tax strategy

Calculation

Extent of usable losses times client capital gains rate

Savings Ranges

$5,000+

Preparation, Planning, or Implementation

Planning or Implementation

Applicable Years

Current Year and Future Years

Subcontractor

You may need to partner with a financial advisor.

Sources

Code Sections 168

STRATEGY: OIL & GAS

Description

Direct investment in oil & gas partnerships have similar benefits to real estate with the added benefit of special accelerated depreciation for well drilling costs. The special treatment of oil & gas costs often allows for positive cash flow and passive tax losses.

Calculation

Extent of usable losses times client capital gains rate

Savings Ranges

$5,000+

Preparation, Planning, or Implementation

Planning or Implementation

Applicable Years

Current Year and Future Years

Subcontractor

You may need to partner with a financial advisor.

Sources

Code Sections 167

STRATEGY: TAX CREDITS

Description

Often, lawmakers will offer credits to incentivise certain businesses or investments in those businesses. Commercial solar projects, affordable house, film production, and historic building rehabilitation are all examples of business models that would qualify for credits. Since investors rarely participate materially in these ventures, the credits are treated as passive and can only be used to offset tax from passive income.

Calculation

Extent of usable losses times client capital gains rate

Savings Ranges

$5,000+

Preparation, Planning, or Implementation

Planning or Implementation

Applicable Years

Current Year and Future Years

Subcontractor

You may need to partner with a financial advisor.

Sources

Code Sections 42, 48, 181

STRATEGY: TERM LIFE INSURANCE

Description

Commonly used as the least expensive short term coverage of death benefit for either personal or business purposes.

Calculation

Combination of plan growth times tax rate and expected retirement income times expected tax rate

Savings Ranges

$10,000+

Preparation, Planning, or Implementation

Planning or Implementation

Applicable Years

Current Year and Future Years

Subcontractor

You may need to partner with a financial advisor.

Sources

Code Sections IRC Sec 79 & 162

STRATEGY: BUY/SELL CONTRACTS

Description

The most efficient and inexpensive form of funding a Buy/Sell agreement among business owners is done through the purchase of life insurance. The most common types of Buy/Sell Contracts are Entity Purchase or Cross Purchase.

Calculation

Combination of plan growth times tax rate and expected retirement income times expected tax rate

Savings Ranges

$10,000+

Preparation, Planning, or Implementation

Planning or Implementation

Applicable Years

Current Year and Future Years

Subcontractor

You may need to partner with a financial advisor.

Sources

Code Sections IRC Sec 79 & 162

STRATEGY: DEFERRED COMPENSATION PLAN

Description

Deferred compensation plans come in two forms: deferred savings plans and SERPs (Supplemental Executive Retirement Plans). These two types are similar in many respects, but deferred savings plans are funded from employee contributions, while SERPs are funded entirely by the employer. Deferred savings plans usually mirror their qualified defined-contribution cousins, such as 401k plans, in which the employee can set aside a certain percentage of earnings to grow either in mutual funds or at a fixed rate guaranteed by the employer.

Calculation

Combination of plan growth times tax rate and expected retirement income times expected tax rate

Savings Ranges

$10,000+

Preparation, Planning, or Implementation

Planning or Implementation

Applicable Years

Current Year and Future Years

Subcontractor

You may need to partner with a financial advisor.

Sources

Code Sections IRC Sec 79 & 162

STRATEGY: EXECUTIVE BONUS PLAN

Description

Unlike deferred compensation plans, executive bonus plans are funded in the name of the employee and are often portable. These plans usually consist of payments into a cash value life insurance policy or a combination policy that provides a package of benefits, such as life, critical illness, disability, and long-term care coverage.

Calculation

Combination of plan growth times tax rate and expected retirement income times expected tax rate

Savings Ranges

$10,000+

Preparation, Planning, or Implementation

Planning or Implementation

Applicable Years

Current Year and Future Years

Subcontractor

You may need to partner with a financial advisor.

Sources

Code Sections IRC Sec 79 & 162

STRATEGY: GROUP CARVE-OUT PLANS

Description

This plan “carves out” the employees who are selected to receive additional cash value insurance coverage on top of the group plan. The employer either pays the premiums for the cash value policies directly to the insurance carrier, or bonuses the money to the employee, who then pays the premiums.

Calculation

Combination of plan growth times tax rate and expected retirement income times expected tax rate

Savings Ranges

$10,000+

Preparation, Planning, or Implementation

Planning or Implementation

Applicable Years

Current Year and Future Years

Subcontractor

You may need to partner with a financial advisor.

Sources

Code Sections IRC Sec 79 & 162

STRATEGY: SPLIT DOLLAR LIFE INSURANCE PLANS

Description

As the name implies, a split-dollar plan represents a partnership between two parties (employer and employee) who both own a portion of a single cash value life insurance policy. The employer retains a percentage of ownership in the death benefit equal to the cost of premiums the employer has paid, while the employee receives the remainder. Employees are generally taxed on the amount of the insurance premiums that the IRS deems to be of "economic benefit" to the employee, known as the P.S. 58 cost.

Calculation

Combination of plan growth times tax rate and expected retirement income times expected tax rate

Savings Ranges

$10,000+

Preparation, Planning, or Implementation

Planning or Implementation

Applicable Years

Current Year and Future Years

Subcontractor

You may need to partner with a financial advisor.

Sources

Code Sections IRC Sec 79 & 162

STRATEGY: RESTRICTED PROPERTY TRUST

Description

Is a Deferred Compensation Plan that is fully, 100% deductible and paid for by the company. It is owned by and put At-Risk by a Trust formed specifically for this purpose. Minimum Premium is $50,000 to participate.

Calculation

Combination of plan growth times tax rate and expected retirement income times expected tax rate

Savings Ranges

$50,000+

Preparation, Planning, or Implementation

Planning or Implementation

Applicable Years

Current Year and Future Years

Subcontractor

You may need to partner with a financial advisor.

Sources

Code Sections IRC Sec 79 & 162

CORONAVIRUS AID, RELIEF, AND ECONOMIC SECURITY (CARES ACT)

STRATEGY: NET OPERATING LOSSES

Description

The CARES Act allows a carryback for the years 2018, 2019, and 2020 ONLY. This means that the tax year of 2021 is not eligible for the carryback. The CARES Act temp changed the TCJA rules only for the three years stated. You will want to use Form 1045 in order to file for the carryback. You can take the NOL Carryback 5 years. The CARES Act also allows for an extension on the RSED (Refund Statutory Expiration Date aka Refund Statute of Limitations) for you to get a refund.

Calculation

Federal income tax rate reduction of taxable income

Savings Ranges

10 - 37% of PY taxes

Preparation, Planning, or Implementation

Planning or Preparation

Applicable Years

2018, 2019, 2020 Tax Years ONLY

Subcontractor

Not applicable

Sources

Code Sections CARES Act (HR 748), Rev. Proc. 2020-24 & Rev. Proc. 2020-23

STRATEGY: RETIREMENT PLANNING

Description

Waived early withdrawal penalty (10%), suspended RMD's, Allows everyone to take up to $100,000 from your retirement account and pay it back over the next three years without tax implementations.

Calculation

Federal Income Tax rate deferral of income tax

Savings Ranges

10 - 37% of CY taxes

Preparation, Planning, or Implementation

Planning or Preparation

Applicable Years

2020, 2021, 2022 Tax Years Only

Subcontractor

Not applicable

Sources

Code Sections CARES Act (HR 748)

STRATEGY: QUALIFIED PROPERTY IMPROVEMENT DEDUCTION

Description

Allows Bonus Depreciation on Qualified property improvement. Allows you to amend 2018 and correct the TCJA non-deduction of the qualified property.

Calculation

Federal Income Tax Rate x amount of deduction

Savings Ranges

10 - 37% of CY taxes

Preparation, Planning, or Implementation

Planning or Preparation

Applicable Years

2018, 2019 Tax Years Only

Subcontractor

Not applicable

Sources

Code Sections CARES Act (HR 748)

STRATEGY: EMPLOYEE RETENTION CREDIT (ERC)

Description

The CARES Act allows for a credit of up to $5000 per qualified employee payroll costs. There are requirements to see if you qualify, but depend on if the company was "hurt" during the COVID19 pandemic. It is for anyone with payroll and the rules change once you have more than 100 employees. You cannot take this payroll credit if you took the PPP Loan. This credit works in conjunction with other payroll tax credits (R&D, WOTC), but you cannot use the funds for multiple credits at one time.

Calculation

Qualification = 50% reduction of gross receipts in PY Qtr
Qualified Wages are 50% of up to $10k

Savings Ranges

$5,000 per qualified employee

Preparation, Planning, or Implementation

Planning or Preparation

Applicable Years

2020 Only

Subcontractor

Not applicable

Sources
Code Sections CARES Act (HR 748)

FAMILIES FIRST CORONAVIRUS RESPONSE ACT (FFCRA)

STRATEGY: SICK LEAVE CREDIT

Description

This is a credit for up to 2 weeks of pay for an employee that must be off due to COVID19.

Calculation

Wages are limited to 2/3 pay and taken as a credit on Form 941

Savings Ranges

2/3 Wages paid taken as a credit

Preparation, Planning, or Implementation

Planning or Preparation

Applicable Years

2020 Only

Subcontractor

Not applicable

Sources

Code Sections HR6074

STRATEGY: FAMILY & MEDICAL LEAVE CREDIT

Description

This is a credit for up to 10 weeks of pay for an employee that must be off due to COVID19.

Calculation

Wages are limited to 2/3 pay and taken as a credit on Form 941

Savings Ranges

2/3 Wages paid taken as a credit

Preparation, Planning, or Implementation

Planning or Preparation

Applicable Years

2020 Only

Subcontractor

Not applicable

Sources

Code Sections HR6074

STRATEGY: HEALTH INSURANCE CREDIT

Description

This is a credit for eligible employers to provide and maintain a group health plan for employees while on Family Medical Leave or on Sick Leave under the FFCRA.

Calculation

Pro-rata % of company paid Health Insurance costs for employees while they are on Sick Leave or Family & Medical Leave under the FFCRA.

Savings Ranges

Pro-Rata % of cost used as a credit

Preparation, Planning, or Implementation

Planning or Preparation

Applicable Years

2020 Only

Subcontractor

Not applicable

Sources

Code Sections HR6074

OTHER STRATEGIES

STRATEGY: COST REMEDIATION

Description

Using cost remediation or cost procurement strategies, companies can maintain their competitive edge by reducing operational cost and corporate risk to improve profit performance. During cost remediation/cost procurement studies, specialists will consider a number of items to lower operating costs such as manufacturing incentives, vendor screening, energy deregulation, equipment lease audits, freight and parcel audits, hiring incentives, tax credits, cell phone audits, energy comprehensive studies, workers compensation audits, property lease audits, etc.

Calculation

There is no tax implication of cost remediation, but it is a great strategy to increase the bottom line revenue.

Savings Ranges

10-30% of current costs

Preparation, Planning, or Implementation

Preparation, Planning

Applicable Years

Current Year and Future Years

Subcontractor

You may need to partner with a financial advisor

Sources

Code Sections 934 & 936

STRATEGY: EDUCATION - IRC SECTION 127

Description

This is an Employer Educational Assistance plan where the employer may exclude up to $5,250 paid to the employee (and the employee does not have to bring it into income). It may be graduate level or undergraduate level.

-Employer must have a written plan
-Plan may not offer other benefits that can be selected instead of education
-Assistance cannot exceed $5,250 per calendar year for all employers of the employee
-Plan cannot discriminate in favor of Highly paid employees

Calculation

Max of $5,250 per employee

Savings Ranges

10-37% + state tax

Preparation, Planning, or Implementation

Preparation, Planning, or Implementation

Applicable Years

Current Year and Future Years

Subcontractor

Not applicable

Sources
Code Sections IRC 127

STRATEGY: DISASTER RELIEF- IRC SECTION 139

Description

Qualified Disaster Relief payments received by an employee can be excluded from gross income. It must be a nationally declared disaster. The expense must be reasonable and necessary for the employee, and include things like:

-Personal, family living, or funeral expenses incurred
-Expenses incurred for the repair or rehab of a personal residence or repair or replacement of contents

There is no max limit to pay, nor does it limit how much can be paid to each employee, nor does it limit shareholder's payments

Calculation

No max, just must be reasonable and necessary expenses

Savings Ranges

10-37% + state tax

Preparation, Planning, or Implementation

Preparation, Planning, or Implementation

Applicable Years

Current Year and Future Years

Subcontractor

Not applicable

Sources
Code Sections IRC 139