WEBINAR

Tax Strategies For Your Professional Service Firm

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Today's Agenda

- COVID Related Tax Planning Opportunities
- Tax Saving Strategies For Professional Service Firms
- What We Learned from the Secret IRS Files on How The Wealthiest Legally Avoid Tax

COVID Related
Tax Benefits to Explore

Changes open the door for many more business to qualify for this tax credit

The Legal Stuff

This webinar is provided for information purposes only and does not constitute professional tax advice and is not intended to form a client relationship.

As you are aware, things are changing quickly and there is no clear-cut authority or bright line rules. The slides are not unequivocal statements of the law, but instead represent our best interpretation of where things currently stand at the time of this webinar.

The slides do not address the other potential impacts of the numerous other local, state and federal orders that have been issued in response to the COVID-19 pandemic.

Employee Retention Credit (ERC)

- The Consolidated Appropriations Act, 2021 made a number of changes to the ERC allowing many more companies to qualify
- The ERC has one purpose — to help make sure that you are keeping your employees working
- Your business can recover & prosper and still qualify for the ERC

What Changes Were Made?

1. The revenue reduction requirement is lower
2. Business that received a PPP are now eligible to apply
3. You can't claim credit on wages paid with PPP funds (but you can once the PPP is done or on wages you didn't claim for PPP)
4. The program is extended to thru Q4 2021
5. The change is retroactive to March, 12 2020

What is the Credit?

2020

50% of qualified wages paid to an employee capped at $5,000

2021

70% of qualified wages paid to an employee capped at $7,000 per employee for all four quarters in 2021

Companies could receive as much as $33,000 per employee for 2020 and 2021

Who is Eligible in 2021?

For all of 2021

1. Operations that were either fully or partially suspended by a government order related to COVID-19

2. Gross receipts were less than 80% of their gross receipts in the same quarter in 2019 (or if their gross receipts for the prior quarter were less than 80% of their gross receipts compared to the corresponding quarter in 2019)

   Can be said as a 20% decline in gross receipts vs 2019

3. Using the preceding quarter to your 2021 calendar quarter, your gross receipts are less than the comparable quarter in 2019

Examples of ERC Qualification for 2021

- Your gross receipts for quarter 2 of 2021 are 75% of your gross receipts for quarter 2 of 2019
  - Your wages paid during the quarter qualify for the ERC
- Your gross receipts for quarter 3 of 2021 are 117% (and better) than your gross receipts for quarter 3 2019. You qualify under the alternative test that allows you to compare quarter 2 where you had the 75% result. Thus, your wages paid during quarter 3 qualify for the ERC because of quarter 2.

The Government Wants To Help Your Business.

Take Advantage.

What About Owner-Employees?

- According to the IRS, your corporation can qualify for the ERC on wages paid to more than a 50% owner of an S or C corp. If that owner DOES NOT have any living brothers & sisters, spouse, ancestors, or lineal descendants

- Your corporation can not qualify for the ERC on more than 50% owner's wages if one of those relatives (other than the spouse) is alive.

To help ensure the ERC for majority owners of S & C Corps., call, email or fax a letter to the tax law writers - your senators and your congressional representatives.

You Took A Coronavirus Distribution from Your Retirement Plan

If you were eligible, you could have taken one or more Coronavirus Distributions (CVD) from your Traditional IRA or 401(k) in 2020, up to $100,000 without penalty.

CVD Strategies with Lower 2020 Income

You might have very manageable federal income tax hit from including the CVD on your tax return.

1. You can recover some or all of the 2020 tax hit by re-contributing some or all of the CVD within the 3-year window and getting the re-contributed amount back into tax-advantaged IRA status.

2. Or you can just keep all the cash and live with the 2020 tax hit.

Tax Saving Strategies for Professional Service Firms

CVD Strategies with Negative 2020 Income

Reporting all the CVD income on your 2020 tax return could be a very smart move if you can shelter most of or all of that income with business losses.

1. Alternatively, you can recontribution all or part of the distribution within the 3-year window, recover all or part of the any 2020 tax hit and get the re-contributed amount back into tax-advantaged IRA status.

In the right circumstances, taking advantage of the CVD ability can be a very tax-smart financial planning strategy.

100% Business Meals Deduction

For 2021 and 2022, you can deduct 100 percent of your business meals by paying attention to a few new, easy rules.

100% Business Meals Rules

- You need a restaurant to provide you with the food or beverages
- They must be tax code section 162 ordinary and necessary business expenses
- You may not deduct "lavish or extravagant" business meals
- You must be present at the business meal
- You must provide the business meal to a person with whom you could reasonably expect to engage or deal with in the active conduct of your business.
    - Such as a customer, client, supplier, employee, agent, partner, or professional advisor, whether established or prospective.

TAX PLANNING OPPORTUNITY

Rent Your Home to Your Corporation for 14 Days Tax-Free

An S corporation owner can rent his or her entire home to the S corporation for up to 14 days per year and get big tax deductions.

The S corporation deducts the full amount of the rent, and the owner realizes the income completely free of income tax.

IRC Section 280A

Work Opportunity Tax Credit (WOTC) Extended thru 2025

This provides businesses a valuable tax credit of you hire a member from a targeted group.

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WOTC Basics

- 40% of qualified first-year wages up to $6,000 in wages ($2,400 credit) for eligible employee
- Employee needs 400 hours of services for max
- Eligible employee must be part of targeted group

- Targeted Groups
  - Qualified IV-A recipients
  - Qualified veterans
  - Qualified ex-felons
  - Designated community residents
  - Vocational rehab referrals
  - Qualified summer youth employees…and more

WOTC – Other Facts

- Claiming WOTC reduces federal income tax deduction for related wages dollar-for-dollar
- You can't double dip with the ERC
- Claim the credit on IRS for 5884
- You can carry unused credit back one year or forward for 20 years

An Overview of Proposed Tax Law Changes

- Higher income tax rates for individuals and corporations
- Highest individual tax rate: Up to 39.6% from 37%
- Corporate tax rate up to 28%
- Capital gains tax rate to 39.6% on income > $1mln
- Elimination of step-up in basis
- Cap on itemized deductions for high income earners to 28%
- Cap on 401(k) taxable income deduction to 26%
- Reduce estate tax exemption to $3.5mln per person (down from $11.7mln)

An Overview of Proposed Tax Law Changes

House Ways and Means (Sept. 2021)

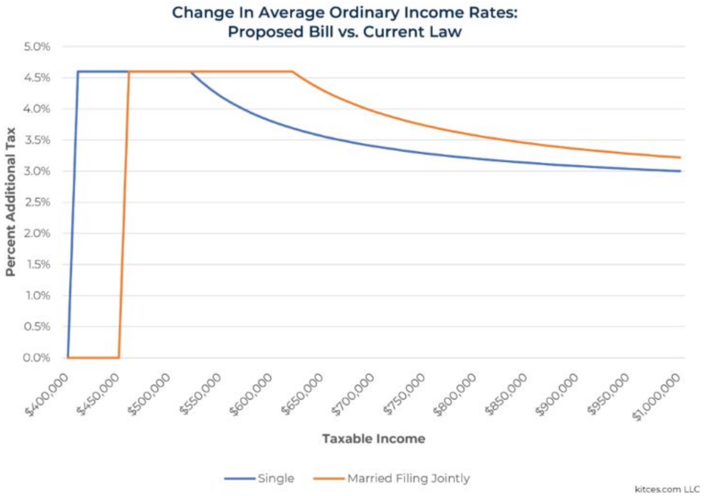
- Highest individual tax rate: Up to 46.4% (39.6% + 3.8% NIIT + 3% surtax) from 37%
- Corporate tax rate up to 28%
  - 18% for less than $399,999
  - Personal Service Corps. Taxed at flat 26.5%
- Expand Net Investment Income Tax of 3.8% to include pass thru businesses for $400k/$500k (MFJ)
- Capital gains tax rate to 25% on income > $400l/$450k (plus 3.8% + 3%) --> Business sales binding contract by 9/13/2021
- Limit max QBI deduction to 400k /$500k beginning 2022.
  - This only impacts Non-SSTBs
- Limit QSBS under 1202 to 50% for taxpayers with adjusted gross income of $400k or more
- Reduce estate tax exemption to inflation adjusted $5mln per person (down from $11.7m - $10mln inflation adjusted)
- Eliminate Back-door Roth contributions for > $400k/$450k filers (not until 2032)

Income Tax Bracket Changes

Single filers with taxable incomes of over $400,000 and joint filers with taxable income over $450,000 will see the biggest impact to lifestyle spend, savings, etc.

Ordinary Income Tax Rates Under The Proposed Legislation
Effective 1/1/2022

	Single		Married Filing Jointly	
	Current	Proposed	Current	Proposed
10%	$0 - $9,950	$0 - $9,950	$0 - $19,900	$0 - $19,900
12%	$9,951 - $40,525	$9,951 - $40,525	$19,901 - $81,050	$19,901 - $81,050
22%	$40,526 - $86,375	$40,526 - $86,375	$81,051 - $172,750	$81,051 - $172,750
24%	$86,376 - $164,925	$86,376 - $164,925	$172,751 - $329,850	$172,751 - $329,850
32%	$164,926 - $209,425	$164,926 - $209,425	$329,851 - $418,850	$329,851 - $418,850
35%	$209,426 - $523,600	$209,426 - $400,000	$418,851 - $628,300	$418,851 - $450,000
37%	$523,601+		$628,301+	
39.6%		$400,001+		$450,001+



TAX PLANNING OPPORTUNITY

Accelerate The Sale of Your Business?

Maximize After-Tax Proceeds

**New Sept. 13, 2021 Issue

Business owners who are considering the potential sale and exit of a business – that may potentially have a 'lifetime' of growth all taxed in a single year of sale – will seriously want to consider liquidating the business before year-end 2021, in an effort to 'harvest' capital gains at current 20% top capital gains tax rates, and avoid potentially substantial capital gains income from being subject to the proposed 39.6% top tax rate in the future (which at the margin, is a 19.6% tax rate savings on what could be one or several million dollars of appreciated business value!).

TAX PLANNING OPPORTUNITY

Accelerate The Sale of Your Business

Maximize After-Tax Proceeds

Additionally, business owners selling in 2021 whose sales may qualify for the **installment method may wish to proactively opt out** of such treatment, and instead report all gain from the sale in 2021, to avoid having capital gains spill into future years, where they may again be taxed at the newly proposed higher rate.

Opting out of such treatment, however, could leave certain business owners with liquidity challenges that should be proactively addressed.

Selling Your Business Example

Let's say Jessica **sold her professional service practice halfway through 2022 for $3 million.**

Thus, her total income in 2022 was $3 million (business sale proceeds) + $250,000 (annual business income)

=$3,250,000

This resulted in $3.25 million (total income) – $1 million (capital gains exemption) = $2,250,000 of capital gains being taxed at 39.6%.

What if, however, Jessica had acted a little bit sooner, and instead of selling her business in the middle of 2022, sold it prior to the end of 2021?

Simply put, the $2.25 million of gain on which Jessica would have owed the proposed 39.6% capital gains tax would be taxed at just 20% instead!

All told, accelerating the sale into 2021 would equate to a reduction in the capital gains tax owed on the sale of the business of (39.6% – 20%) × $2.25 million (capital gain income originally subject to 39.6% tax rate) = $441,000.

Renting Your Home – The Basics

1. Rent a dwelling that also qualifies as one of your residences
2. Rent that residence for less than 15 days during the year
3. Pay & document fair rent
4. Avoid "entertainment facility"
5. Document a business activity took place

<u>Example:</u>

- Rent House to S-Corp for $1,000 Per Day
- Rent it to S-Corp for 14 days = $14,000 S-Corp Tax Deduction
- Rental Income of $14,000 Passed Through To Owner
- Because Homeowner rented home for 14 days or less, she / he has no taxable income
- **$14,000 x 35% Tax Bracket = $4,900 of tax savings**

TAX PLANNING OPPORTUNITY

Reduce S-Corp Owner Wages

As the owner of an S corporation, you can legitimately cut payroll taxes by thousands of dollars by paying yourself a lower salary and taking the rest of your income as distributions.

But you need to make sure that you don't drop your salary below what the IRS considers "reasonable compensation."

Consider this example:

Let's say you operate a sole-prop and you earn $100,000 of business income.

This means you pay $14,130 is self-employment taxes (the equivalent of payroll taxes).

If you form an S-Corp and set your salary at $50,000, you and the corporation pay a total of $7,650 in payroll taxes, giving you savings of $6,480.

Determine a Reasonable Salary

- **Look at salary stats for your line of work**
- **Make downward adjustments if you can justify them (profitability, spend time in admin)**
- **Document your analysis in your corporate minutes**
- **Use RC Reports**

TAX PLANNING OPPORTUNITY

Set Up The Most Effective Retirement Plan

- SIMPLE IRA: $13,500 + Catch U
- 401(k): $26,000 + Catch Up
- 401(k) w/ Profit Sharing: $58,000 + Catch Up
- Cash Balance Plan – A 50 Year Old can Contribute $162,000 per year
- Backdoor Roth
- Health Savings Accounts

TAX PLANNING OPPORTUNITY

Turn Vacation Into Tax-Deductible Business Travel

You can deduct travel expenses as long as your trip is an "ordinary and necessary" cost of doing business

You can deduct two big types of expenses:

1. Transportation
2. Lodging and Meals

1. **Profit Motive:** You need to have a reason why you expect the trip will make $$$ for your business
2. **Stay Overnight:** You get deductions only for business trips which you stay overnight away from your tax home
3. **Apply the "for only" test:** When you plan your trip, ask yourself whether a rational businessperson would travel for only the business reason (or is the personal element so important that that triop does not make sense without it?)
4. **Primary purpose test:** For travel in the U.S., your easy way to pass the primary purpose test is to make a majority of your days business days
5. **Maintain Good Records:** This is the most important step
6. **Bookend Business Days:** Business on Friday and Monday makes certain weekend expenses tax deductible

What We Learned From the Secret IRS Files On How the Wealthy (Legally) Avoid Tax

What The Wealthy Do

Borrow Tax Free At Low Rates Against Growing Assets

- Acquire assets (Stocks, Real Estate)
- Assets grow at higher rates
- Borrow against those assets at low rates (1-3%)
- **Borrowing provides cash; tax-free**
- **Interest expense Is tax-deductible**
- Avoid capital gains tax by not selling higher growth assets
- Use borrowed funds as spending $
- Never have to sell assets as long as they only live fff a small %
- Once they die, assets pass free to heirs tax free
- Loans are paid off at death

What The Wealthy Do

Invest Using Roth IRAs

Peter Thiel turned

$1,700 → $5 Billion

inside of his Roth IRA

The Roth IRA is a tax-free forever account

- You can make your 401(k) have a Roth option
- You can contribute to a Roth even if you make too much money to contribute directly (Backdoor Roth)
- You are not limited to traditional investments – you can invest in private companies and other alternative investments

Any Questions?

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Thank you!

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