you on more of them soon.

Jan. 01, 2018

Honestly, as soon as the new tax law was codified, I must have spent three days going through it. If you are anything like me, you read these things with the thought in your head of, "What can I get away with?" Sometimes different clients come into my head. Let's point out all the fun we can have with the new tax law.

I realize that most tax accountants out there advise an LLC taxed like an S-Corporation. The LLC is a better legal entity, and because of its flexibility, you can have it taxed pretty much any way that you want. S-Corporations were always the professional's go-to for all new companies. It saved self-employment tax and only had one level of taxation.

The new tax law has a complicated and convoluted the way of calculating the tax on all pass-throughs. Generally, the first 20% of the money made isn't taxable, only 80% is taxable. UNLESS the amount passing thru is $157,000 or more and then that reduction reduces eventually to nothing. S-Corp doesn't look so good now.

However, on the C-Corporation front, taxes have been reduced to 21%. Think really hard about all of the things you give up as an S-Corporation owner. If you are a more than 2% shareholder of the S-Corp, you can't have any fringe benefits.

I know what you are thinking, and I had the same thing pounded into my head about C-Corporations, double taxation. Stay with me. Say you own an S-Corporation whose net income is $100,000. Of that, you take a $50,000 salary and take $50,000 in distributions. Ask your clients what they spend their distributions on. Mostly, it is fringe benefits.

RULE #1 FOR ALL FRINGE BENEFITS, IF YOU HAVE FULL-TIME EMPLOYEES YOU

achievements.

The value of those awards— unlike cash, gift certificates, or stock— is tax-exempt for employees!

3. Athletic Facilities Owned, Operated, or Leased by the Employer – A free gym for employees, their spouses, and their dependent children younger than 25 on company-owned premises offers convenience and cost savings to encourage a healthy lifestyle.
4. De Minimis Benefits – Low-value, infrequently provided benefits aren't taxable (as long as they aren't cash or cash equivalents.)

Giving an employee tickets to see her favorite sports team or a cake from her favorite bakery shows you care without creating tax liability for either of you.

5. Employee Stock Options – You can give your employees incentive stock options, employee stock purchase plan options, and non-statutory (nonqualified) stock options without having to pay taxes on them when the employee exercises or sells the stock.

However, there are tax reporting requirements for stock options that don't apply to other fringe benefits.

6. Group Term Life Insurance Coverage – You can give your employees term life insurance with a death benefit up to $50,000 and the premiums you pay will be tax exempt.

Sometimes, even life insurance for an employee's spouse is tax exempt, too

7. Retirement Planning Services – If your small business offers employees a pension or a qualified retirement plan such as a 401(k), you can supply services that give

general retirement information and advice to employees.

employee doesn't receive another commuting benefit in the same month.

9. Dependent Care Assistance – Employees can exclude from gross income up to $5,000** in annual benefits received under a dependent care assistance program that makes it possible for them to work.
0. Educational Assistance – Help your employees earn a degree or complete continuing education that will enhance their professional growth.

Use your business to contribute up to $5,250 per year towards textbooks, tuition, equipment, and fees for your most promising employees – they'll appreciate your support of their long-term goals, and neither of you will incur additional tax liability.

1. Employer-Provided Cellphones – Some businesses provide employees with a company phone to be used for business purposes.
2. High Deductible Health Plan & Health Savings Account (HSA) – At first glance, it would not appear that this business tax strategy benefits the employee.

However, when executed properly, enrolling employees in an High Deductible Health Plan coupled with an HSA plan can be a very powerful tool for long-term cost savings for everyone in your organization.

For example, for those that are self-employed we have two options. If my company is just my spouse and myself, I can't get group insurance. I have to go to the exchange, with no subsidy, and purchase insurance for a family of four which costs almost $3000 a month. There are different price levels, but we are the family insurance companies hate. We get more benefits from the insurance company than we pay in premiums. However, instead of paying $46,000 a year for insurance, I can adopt a HDHP, obtain a Health Savings Account, whose limitations are $3,500 a year if single, and $6,775 a year for a family.

One thing I have left out. As an S-Corporation I could never consider something

With all of these deductible to the corporation fringes, that should take care of the money that you are using for a distribution, and making it tax deductible.

Here is a Table to Illustrate the Difference

Income and Expenses	S-Corporation after 2018	C-Corporation After 2018	Difference
Wages	$75,000	$75,000	$0.00
Earnings	$200,000	$200,000	$0.00
Tax on Personal	$64,179	$1,900	($62,279)
Tax on C-Corporation	$0.00	$41,000	$41,000
Total Tax	**$64,179**	**$42,900**	**$21,279**

In this example, you save $21,279 in taxes by being a C-Corporation, not to mention the fringes. Let's say that your client takes a $20,000 dividend out of the C-Corporation, that would only add $2,500 in tax.

By the way, I don't give blanket advice. I give advice based on history, or a potential tax situation. Now, I usually glaze over tax brackets, but not this time. An old trick in tax planning that I learned many years ago is to get your income out of your higher tax bracket to a lower one. For example, let's say that I have a client that is in the 35% tax bracket and I want to move some earnings to someone else. You simply pay your kids a salary. We did that for our kids and saved the money for college. You can put the money into a 529 Plan or some prepaid college program if your state has one.

In the new tax law, you can pay your kids $14,000 a year and they don't even need to

will get less money from disability.

An ABLE Account doesn't work that way. The money that the family has saved in the account is NOT held against them for disability reasons. Further, with the new tax plan, you can roll a 529 into an ABLE, or an ABLE into a 529.

Remembering the rules of IRC §529, the account is owned by whomever opens the account. Usually the parents. Let's say that I have three kids, two are okay, and the third is special needs. Children are inundated every day with images or news of successful business people and others that never went to college. So, let's say that one of the kids in this family has $100,000 in a 529 and decides not to go to college. That money in the account can simply be rolled over to either an ABLE or another 529 Plan.

You can put up to the gift tax limits into an ABLE or SNT. The limits in 2017 are $14,000. If you are married and you and your spouse elect to split your gifts in 2017, you can put $28,000 into the account. Let's say that the special needs child can shred, sort mail, etc. You can hire them, and put the money into an ABLE.

There are so many cool things that you can do with this new tax law. I will be updating you on more of them soon.

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