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INSIDE THIS ISSUE

S Corporation Reasonable Salary Compensation Guidelines

S Corps are corporations opting to flow their business income, losses, deductions and credits through to their shareholders for federal tax purposes. S Corp shareholders then the report the income and losses on their personal tax returns and are taxed at their individual income tax rates. Thus they avoid paying double taxation on the corporate profit.

A corporation must meet the following requirements to qualify for S Corp status:

Be a domestic corporation

No more than 100 shareholders

One class of stock

Allowable shareholders (no partnerships, corporations or non-resident alien shareholders)

Continued on page 2

Should You Repay Your Student Loans

Should you continue paying your student loans if there's a chance that Joe Biden will forgive them?

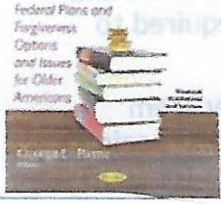
Borrowers who expect to receive Public Service Loan Forgiveness were advised against making payments because it would just reduce the amount of forgiveness they ultimately received.

President Joe Biden said in April 2022 that he was considering using his executive authority to cancel student loan debt more broadly. He's been facing pressure from other Democrats for months to cancel $50,000 per borrower.

Biden has said that if he takes action to broadly cancel federal student loan debt, it would be for an amount smaller than $50,000 per borrower. On the 2020 campaign trail, Biden said he would support $10,000 in forgiveness. White House officials have indicated that the President is also looking at setting an income threshold so that high-earning borrowers would be excluded from the debt relief.

The Administration has thus far focused on discharging student loans borrowed to attend for-profit colleges that were found to be defrauding student borrowers, such as Corinthian Colleges.

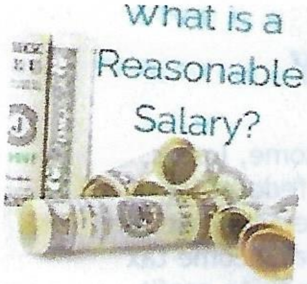
Repayment of Student Loans



While broad student loan debt cancellation could deliver financial relief to millions of Americans, the implications of such a significant policy move are complicated. On its own, the action would do nothing to bring down the cost of college for future borrowers or help those who have already paid for their degrees

S Corporation Reasonable Salary Compensation Guidelines (continued from page 1)

What is a Reasonable Salary?



An S Corp is not a legal business entity in and of itself. Rather the S Corporation designation is a special election made by an LLC or C-Corp with the IRS that allows the business to offer the same liability protection as corporations and LLCs protecting the owners' personal assets against debts and lawsuits of the company.

Besides liability protection and avoiding double taxation, S corps have some other advantages:

They are required an income tax return once a year.

They can sell shares of stock.

They have perpetual existence meaning the business continues to exist even if the owner leaves or dies.

The S Corp is also a popular entity election because it allows the owners to divide business income into salaries and distributions. Owners pay payroll taxes on wages only and not on shareholder distributions. Dividends are the distributions from the business income as a return of capital to a shareholder and are not subject to payroll taxes. For that reason, the IRS keeps a close eye on S Corporation dividend distributions to ensure the corporation is not merely trying to avoid paying employment taxes.

What Is Reasonable Compensation?

It can get messy if the IRS believes owners are trying to hide wages behind distributions to avoid paying payroll taxes. S Corp owners must pay 'reasonable compensation' to each shareholder/employee in exchange for any services provided by the shareholder/employee. Defined by the IRS, 'reasonable compensation' is the value that would ordinarily be paid for like services by like enterprises under like circumstances. In general if a shareholder does anything more than contribute money to a business, the shareholder is considered an employee. If this is the case, the shareholder must be paid wages comparable to similar services compensated for similar industries.

The definition of an employee for payroll tax purposes includes corporate officers and shareholders, if and when any services are performed for the business. Courts have consistently held that S Corp owners/officers/shareholders who work and provide anything more than minimal services to the company are required to receive wages that are subject to federal employment taxes.

Although the definition of what constitutes a 'reasonable' wage may seem subjective, the IRS scrutinizes the S Corp's source of income (its gross receipts) and then determines if and what tasks the owner/shareholder performed for the S Corp to assist in generating the gross receipts.

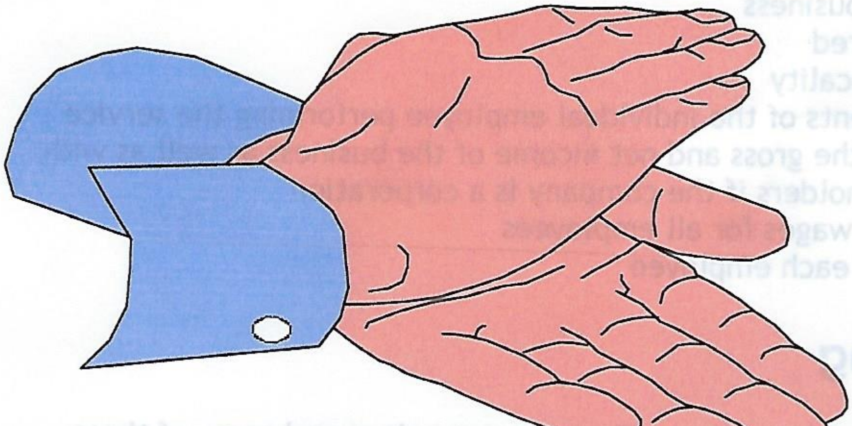
Any portion of gross receipts generated by either the shareholder's involvement or in the act of assisting employees in performing services must be compensated as wages and subject to employment taxes. The IRS recommends considering the following factors when determining the reasonableness of pay:

Duties performed by employee
Volume of business handled
Character and amount of responsibility
Complexities of your business
Amount of time required
Cost of living in the locality
Ability and achievements of the individual employee performing the service
Price compared with the gross and net income of the business as well as with distributions to shareholders if the company is a corporation'
Your policy regarding wages for all employees
History of salaries for each employee

Estate Planning

Many seniors have already written wills and estate plans and many of these need to be updated. For example, children may have left the house and there is no longer a need to set up a testamentary trust for minor children. Life insurance may no longer be necessary when seniors have retirement assets and grown children.
It is important to review the estate planning periodically to make sure documents are up to date and still reflect your wishes. Proper planning will leave your loved ones with a roadmap to deal with difficult decisions and can avoid federal and state estate tax consequences.
A will transfers assets after death according to your wishes. An Executor or Personal representative is appointed to execute the will. Wills are filed with the probate court. Probate is the court supervised distribution of assets upon death. Many clients should set up strategies to avoid or reduce their probate assets to allow heirs to receive the assets quicker upon death and reduce legal fees. You should review beneficiary designations, pay on death (POD) designations and Revocable Living trusts (RLT) with an attorney to see what is most advisable.
A Living Will communicates your treatment wishes should you be unable to make healthcare decisions for yourself. A Healthcare Power of Attorney will appoint an agent to make healthcare decisions for you in cases of incapacity. A financial power of attorney appoints an agent to make decisions for you should you become permanently or temporarily incapacitated.
A trust is a legal entity to hold, safeguard, distribute, and control assets. Trusts can avoid or reduce taxes, remove assets from the estate or set aside money for minors or a charity. Special Need Trusts (SNT) remove assets so that individuals with special needs can continue to qualify for public assistance. Revocable Living Trusts (RLT) are used to avoid or reduce probate. RLTs are advisable when you own real estate in more than one state, own businesses, or desire privacy in settling their estate as probate is on the public record.

It is prudent to plan properly to ensure loved ones are taken care of and their wishes are carried out. Even those without significant assets should engage in the estate planning process.



Our 25th Anniversary

As hard it is to believe, this issue marks the 25th anniversary of this newsletter.

What have we covered over the last 5 years (since the 20th)?

The Silence Breakers, James Patterson – Most Prolific Writer, Washington Breaks Sports Championship Drought, Aretha Franklin Had No Will or Trust, Where Did All of the Washington Redskin Ticketholders Go, Need a New Car, Political Leadership, Flyers Dropped at End of Each Driveway in My Neighborhood, Sirens, Stop Signs, The Pandemic, Changes are Coming, Wear The Damn Mask !, Pandemic Anniversary, Tab Soda - Gone, COVID, Selling Real Estate, Inflation, and Pandemic Continues.

Five years ago I ended this summary with the question: 10 more years?

Well we just completed 5 of the 10 years.

I have issued these newsletters on a quarterly basis over the last 25 years. After much thought, I have decided to cease issuing the newsletters quarterly but will rather issue when significant tax issues and similar financial issues occur that need to be communicated to all.

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