S Corp Salary

Reasonable Shareholder Salary

Posted July 18, 2018

Determining a reasonable shareholder salary is the hardest part of running an S corporation. What the heck do I pay myself? Before we get into that, let's discuss why a reasonable S Corp wage needs to be just above bar napkin quality and just below NASA precision. The Watson CPA Group has been computing officer compensation since 2007, and we believe we have it dialed in as well as anyone can.

Scattered throughout our website and book we've stressed that the only tax savings an S Corp provides is the reduction of self-employment taxes, and in the case of S corporation compensation we are talking about Social Security and Medicare taxes (payroll taxes). When your company, or any company, pays you $10,000 in shareholder wages, 7.65% is withheld from your pay check for the employee's portion of payroll taxes. This is broken down into 6.2% Social Security and 1.45% Medicare. Your company must also pay 7.65% for a combined percentage of 15.3%. Adding on 25% in income taxes equates to a 40% tax rate… yuck!

Therefore, a $10,000 shareholder salary costs you $1,530 in additional taxes beyond income taxes. Said in a different way, if you pay yourself $50,000 when $40,000 could have been a reasonable shareholder salary, you just wasted $1,530. Even a $5,000 delta equates to $765. As such, your S Corp officer compensation needs to be reasonable, sure, but it also needs to be as low as reasonableness and not-so-common sense will allow.

IRS S Corp Stats

Let's jump right into some numbers first before going through reasonable S Corp salary theory developed from IRS revenue rules and tax court cases. The following table is a summary generated from IRS statistics on S corporation tax returns for the 2013 tax year. Yes, this is the most current. No, we do not know why a room full of servers can't crunch this in real-time. So here we are-

	Gross Receipts	Net Income	Officer Comp	Officer Comp %

Annual Receipts	Per Return	Per Return	Per Return	of Net Income
$25,000 to $99,999	62,552	6,672	8,871	57%
$100,000 to $249,999	168,051	22,194	22,786	51%
$250,000 to $499,999	365,476	37,732	43,158	53%
$500,000 to $999,999	720,013	58,351	67,474	54%
$1M to $2.5M	1,572,621	119,808	110,911	48%

First some quick observations. Officer compensation is added back to net income to determine officer comp as a percentage of net income. Next, this is all industries from capital intensive manufacturing to personal services business such as attorneys, doctors, consultants, engineers and accountants. Also, this includes S Corps who lost money, and whether they lost money and continued to pay a reasonable shareholder salary (officer compensation) is unclear. In other words, if losses were teased out would officer compensation be reduced as a percentage of net income? We cannot quickly determine.

Here is the same data grouped by gross receipts but detailed by selected industries. First one is $100,000 to $249,999 in gross receipts-

	Gross Receipts	Net Income	Officer Comp	Officer Comp %
$100,000 to $249,999	**Per Return**	**Per Return**	**Per Return**	**of Net Income**
Finance and Insurance	160,359	34,408	23,213	40%
Real Estate	165,375	38,231	28,193	42%
Professional, Scientific	163,151	32,910	35,404	52%
Health Care	174,383	24,622	36,026	59%

And now for $250,000 to $499,999 in gross receipts-

	Gross Receipts	Net Income	Officer Comp	Officer Comp %
$250,000 to $499,999	**Per Return**	**Per Return**	**Per Return**	**of Net Income**
Finance and Insurance	366,533	77,518	62,329	45%
Real Estate	359,163	65,419	51,151	44%
Professional, Scientific	355,693	71,136	74,493	51%
Health Care	378,147	51,553	75,382	59%

There you go. Remember that officer compensation includes all fringe benefits such as self-employed health insurance and HSA contributions, and it might be influenced (increased) by those who want to maximize 401k deferrals and / or defined benefits pensions.

Reasonable S Corp Salary Theory

Truth be told there are some philosophical issues with calculating a reasonable S corporation salary when your labor is the only material income-producing factor for the business. Some would argue that all the S Corp's income should then be considered shareholder wages and subjected to Social Security and Medicare taxes, since if you died the company would die (especially for specified service trades or businesses such as an attorney, accountant or physician).

Conversely, there might be times where your business would continue without you. When the Watson CPA Group does business valuations, especially in divorce proceedings, we assign a value to personal and enterprise goodwill through a method called excess earnings. We do this by taking a number called seller's discretionary cash flow (SDCF) and we subtract the cash flow that is derived from tangible assets (cash, equipment, etc.). This leaves us with a theoretical number that is considered goodwill which can be used as a proxy to determine your "value" to the business and can be leveraged into creating an S Corp salary calculator with 1s and 0s. Quantifiable stuff.

We further tease out personal goodwill and enterprise goodwill since in some jurisdictions personal goodwill is not marital property. This might seem like an odd tangent, but a similar argument can be made for a business that does not rely on you. One great example is a financial advisor that has a small team supporting him or her- typically the fee income continues well into the future without the direct involvement of the advisor (enterprise goodwill). In this situation, an argument for a smaller salary could be warranted since enterprise goodwill exceeds personal goodwill. Consider this-

Business Type	**Owner Participation**
Software developer who has gone to market	10%
Amazon retailer, a lot of drop shipments, no inventory	20%
Financial advisor with small team	30%
Doctor who is a partner in an emergency clinic	40%
Consultant, Attorney, Accountant	90%
Actor with no endorsements or couch-jumping events	100%

Of course this is all theoretical and is open to debate, but you get the idea.

Not to go too far into the weeds, but when performing business valuations we also consider investor value. What rate of return would an investor need to earn after paying you a reasonable salary? Of course a lower salary to you results in a higher rate of return for the investor. We digress…

This web page is a condensed version of Chapter 6 Operating Your S Corp from our book, Taxpayer's Comprehensive Guide to LLCs and S Corps. Here we will review-

- IRS Revenue Rulings and Fact Sheet 2008-25
- Tax Court Cases
- Risk Management Association (RMA), Bureau of Labor Statistics (BLS) and Salary.com
- Rules of Thumb, Jumping Off Point

IRS Revenue Rulings and Fact Sheet

In 1959, **IRS Revenue Ruling 59-221** held that amounts of S corporation undistributed taxable income which are required to be included in each shareholder's gross income do not constitute net earnings from self-employment to shareholders. However, in 1974, **IRS Revenue Ruling 74-44** stated that "dividends" paid to shareholders will be recharacterized as wages when such "dividends" are paid to shareholders in lieu of reasonable compensation for services performed for the S Corp. Read that again- "in lieu of" is paramount. Also, the word dividends is in quotations because in reality we call these shareholder distributions, but in 1974 they referred to them as dividends.

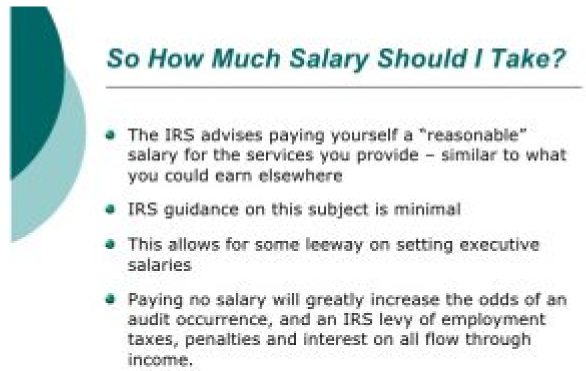
This makes sense. Dividends being used to pay for services are truly wages. If Google or Amazon pays out a dividend to its shareholders, it is considered investment income. If your S corporation does the same thing to its only shareholder without an accompanying reasonable shareholder wage, then it is considered self-employment income and subject to the gaggle of taxes with that type of income.

Moving on… There are several factors to consider when coming up with a reasonable shareholder salary. The IRS through Fact Sheet 2008-25 released the following laundry list-

- Training and experience.
- Duties and responsibilities.
- Time and effort devoted to the business.
- Dividend history (IRS nomenclature, really this should be shareholder distributions- however back in the day it was C corporations who later elected to be taxed an S corporation, so dividend history still has some historical merit).
- Payments to non-shareholder employees.
- Timing and manner of paying bonuses to key people.
- What comparable businesses pay for similar services.
- Compensation agreements.
- The use of a formula to determine compensation.

This list actually has two applications. Since C corporations might have a tax rate that exceeds an individual tax rate, including being double-taxed, many small C corporations want to drive corporate income close to zero by paying high salaries. The IRS and the tax court will use this list to say your salary is too high as a C Corp. Conversely, S corporations want to increase corporate income by paying small salaries. The IRS and the tax court will talk out of the other side of their mouths by using this list to justify a higher salary. Yes, they get to have it both ways… but only if you look carefully, the IRS and the tax court only focus on the too high and the too low. Just like Goldie Locks, they like things "just right."

Tax Court Cases for Reasonable Shareholder Salary



The tax court has provided some guidance over the years in several well-known cases. Here is a quick reference list-

Spicer Accounting v. United States, 918 F.2d 90 (1990)
Spicer was the only accountant working for the firm and it was owned 50-50 with his wife. He only received dividends, and claimed to donate his services to the S corporation. The court held "The Federal Insurance Contributions Act and Federal Unemployment Tax Act both define 'wages' as 'all remuneration for employment… that the form of payment is immaterial… [therefore] the only relevant factor being whether payments were actually received as compensation for employment."

Watson v. Commissioner, 668 F.3d 1008 (8th Cir. 2012)
No relation to the Watson CPA Group! In this case, Watson was an accountant in a firm he owned. He drew a salary of $24,000 even though the firm grossed nearly $3 million in revenue. Watson was a Certified Public Accountant with advanced degrees. The 8th Circuit Court ruled that a reasonable person would consider the dividends paid to Watson to be "remuneration for services performed" as opposed to a return on investment. To support its position, the IRS successfully asserted that the $24,000 shareholder salary was not enough to support Watson's lifestyle. As such, his dividends were reclassified as wages and the firm was assessed huge employment taxes plus penalties and interest.

JD & Associates, Ltd. v. United States, No. 3:04-cv-59 (District Court, North Dakota, 2006)
Dahl, an accountant and sole shareholder, paid himself a small salary. The IRS hired a valuation expert who used Risk Management Association (RMA) data to determine what other accountants were paid for similar services. The RMA data was damning enough, however what really sent this case over the edge is the Dahl paid himself less than his staff including clerical positions. While admins might be more valuable than you, in the eyes of the IRS, they cannot make more than you.

These darn accountants are out of control! Here are couple of "wins."

Davis v. United States, 1994 U.S. Dist. LEXIS 10725 (District Court, Colorado, 1994)
A husband and wife team owned a corporation. The husband worked elsewhere and the wife performed clerical duties (12 hours per month). Her accountant said her services were worth $8 per hour. The IRS did not challenge the value of the time

commitment and therefore Davis won this case because the wife was able to prove her minimal hours.

Sean McAlary Ltd. Inc. v. Commissioner (Tax Court Summary Opinion 2013-62)
In a recent tax court case, the IRS hired a valuation expert to determine that a real estate agent should have been paid $100,755 salary out of his S Corp's net income of $231,454. Not bad. He still took home over $130,000 in distributions, and avoided self-employment taxes (mainly Medicare) on that portion of his income. Then again, this makes sense. Real estate oftentimes sells itself thanks to the internet, and the real estate agents are merely facilitators. In other words, the actions of the real estate agent were not solely responsible for $231,454 in income.

Cornerstone Reasonable Shareholder Salary Tax Court Cases

There are two tests that tax courts have used in the past. In **Label Graphics, Inc. v. Commissioner,** Tax Court Memo 1998-343 which was later affirmed by the 9th Circuit Court in 2000, the court came up with-

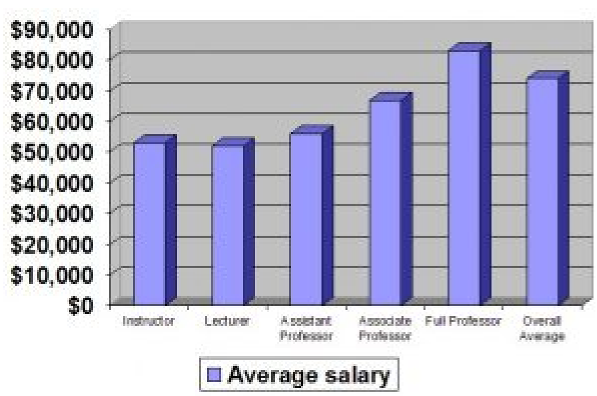
- The employee's role in the company.
- A comparison of the compensation paid to similarly situated employees in similar companies.
- The character and condition of the company.
- Whether a relationship existed between the company and employee that may permit the company to disguise nondeductible corporate distributions as deductible compensation.
- Whether the compensation was paid pursuant to a (1) structured, (2) formal, and (3) consistently applied program.

In **Brewer Quality Homes, Inc. v. Commissioner,** Tax Court Memo 2003-200, the court re-iterated several points from another federal court case (**Owensby & Kritikos, Inc. v. Commissioner, 819 F.2d 1315 (5th Cir. 1987)**)-

- The employee's qualifications.
- The nature, extent, and scope of the employee's work.
- Size and complexity of the company.

- Comparison of the employee's salary with the company's gross and net income.
- Prevailing general economic conditions.
- Comparison of salaries with distributions to stockholders.
- Compensation for comparable positions in comparable concern.
- Salary policy of the company as to all employees.
- Amount of compensation paid to the employee in previous years.

Similarly to **IRS Fact Sheet 2008-25** no single factor controls. It really is a preponderance of the evidence as civil courts like to say. Tax court judges will go through these lists, depending on the case and the jurisdiction, and will apply the facts and circumstances to each of these factors. They essentially make a list of pluses or a minuses to determine a reasonable S corporation salary.



Reasonable Salary Labor Data

The tax court and the IRS will attempt to support a reasonable shareholder salary based on your peers and colleagues. They will use an expert who specializes in vocational valuations, and this person might use Risk Management Association (RMA) and Bureau of Labor Statistics (BLS) data, including local and regional data. How does this equate into an S Corp reasonable salary calculator? It doesn't…. but we are getting closer to quantifying it.

Our previous real estate agent benefited from this type of valuation since his S corporation earned significantly more than the average real estate agent's salary. But what if the opposite was true. So, instead of earning $231,454 and only paying out $100,755 in salary, what if you earned $110,000. Would you have to pay out $100,755 in salary just because you are a real estate agent in an area where other agents earn $100,755?

The answer is a true accountant or lawyer response- it depends. There are several factors that mitigate this. Perhaps you work part time. Perhaps you simply are not as good as your peers. Perhaps you focus on a different type of customer. Review the previous laundry lists, and as you go through each item ask yourself if you could safely use that to justify a lower salary than your peers- we bet you can find several instances.

Statistics attempt to homogenize a population so we may draw correlations and eventual conclusions. Certain professions that appear to be slam dunks are not as they appear. Attorneys and accountants come to mind- we know some attorneys that make $100,000 a year while others make $250,000. It is very tough to jam these two square pegs into the same round hole.

Accountants, same thing. IT consultants, same thing. Even physicians doing the same line of work (such as anesthesia) range between $80,000 and $400,000. Same work, at least on paper, yet wildly different incomes! Do you really want the $80,000 a year doctor putting you to sleep?

There is another lesson to be learned here. As your S Corp income increases, the reasonable S corp salary paid to the shareholders do not necessarily increase on a pro rate basis. In other words, if you peg your salary at $60,000 and that is supported with labor data, your salary does not double just because your net income in your S corporation doubles. Your salary is based on you, and the data surrounding you. Yes, the courts look at distributions and net income, and Yes, your salary would probably be increased if your net income doubles, but it is not tethered in a lock-step, $1 for $1 pattern.

RCReports

Recently we have started using RCReports or Reasonable Compensation Reports which is a consulting firm out of Denver, Colorado. They send out a survey to you which asks a bunch of questions about qualifications, time spent on various tasks, regional data, etc. From there, and in their words, “RCReports synthesizes a proprietary blend of IRS criteria, Court Rulings, geographic data and our EXCLUSIVE database of wages to accurately assess Reasonable Compensation for S Corp, Small & Closely Held Business Owners.” Cool!

You can view a sample here-

RCReports Sample

If you visit this link and read the report, RCReports does a wonderful job coming up with a number and then putting a bunch of data behind it. The report looks official and uses sources; this is a critical consideration since reasonable compensation is such a squishy thing. In other words, the IRS might challenge your reasonable S Corp salary much like a mall cop with a badge but no gun, and certainly no evidence. When you roll up with a 7-page document that has numbers, data and sources scattered about, it is super hard for the IRS to say No. For lack of better evidence, the IRS would be forced to use your evidence.

Two more considerations with RCReports. A large part of the calculus is predicated on the business owner wearing multiple hats. At times you are a janitor cleaning your office. At times you are a bookkeeper balancing your checkbook. At times you are performing clerical duties. These tasks might have a lower salary than your primary task, which creates a blended rate for an overall officer compensation.

The other consideration is that just because RCReports comes up with a salary does not mean you must pay that salary. There might be circumstances which would drive down a reasonable salary such as rapid growth, unsteady earnings, etc. There might be circumstances, such as 401k and other external reasons, to increase your salary.

Please keep in mind too that reasonable compensation includes self-employed health insurance and HSA contributions. Therefore, if RCReports comes up with $80,000 but your health insurance is $10,000, then your salary should be $70,000.

The Watson CPA Group can do a reasonable compensation analysis for you. Yeah, we have to charge you about $250 but it gives you a defensible salary and some peace of mind. Bargain!

W-2 Converted to 1099 Reasonable Salary

So you are bumping along and one day your employer decides to convert you from a W-2 employee to a 1099 contractor. Aside from this being a load-shedding sham that the IRS and most states believe to be an end-around, several large companies continue to reduce their workforce in favor of contractors.

You say, no problem, and eventually create an LLC taxed as an S corporation. Now what? Do you peg your salary to the same salary you had before? Hardly. Labor burden rates for companies can vary from 1.4 to 2.0. What does this mean? This means if a company is paying you a $100,000 salary, your actual cost to the company might be as high as $200,000. Why?

Health insurance, dental insurance, paid time off, vacation, sick pay, holiday pay, payroll taxes, workers' compensation insurance, disability, group life insurance, office rent (smaller workforce smaller office footprint), etc. Yeah… read that again. There is a ton of overhead that gets tacked on to you as an employee. No wonder the company just converted you from W-2 to 1099. Mo' money! Just not for you.

How does this factor in the reasonable salary conversation? Let's say your company's labor burden rate is 1.8 which is not far off most big, fat corporations. This would suggest that a $100,000 salary costs the company $180,000. If you are paid $100,000 as a contractor (which would be a crummy deal), then your relative salary could be $55,000. You shouldn't get penalized if you run a leaner operation than your former employer.

What about the risk of this new arrangement? As a shareholder in an S corporation you are assuming a ton of risk- equity risk, industry risk, small business risk and company-specific risk. If we perform a business valuation where the business has a singular client, the risk of the future economic benefit (income stream) is huge.

As risk increases we demand a higher rate of return, or increased distributions. Makes sense, right?

Mini recap- labor burden rate plus increased risk of singular client can suggest a lower salary than the old W-2 job. And… being converted is not a bad deal- company car, your own 401k, business casual means PJs, etc.

S Corp Shareholder Salary Starting Point

There are plenty of professions that have great data from the Bureau of Labor Statistics (BLS), Risk Management Association (RMA) or RCReports. But let's say your job is some odd-duck, whacky thing for which comparable data doesn't exist. Where do we start quantitatively? At the end of the day, we need a number!

One argument that we and others have made is the concept of 1/3, 1/3, 1/3-

- 1/3 paid as shareholder salary, plus
- 1/3 retained for expenses (if necessary, otherwise flushed out at end of quarter), plus

- 1/3 distributed as return on investment (distributions)

Where the heck did we get this? A rule of thumb for service trades or businesses such as accountants, attorneys, consultants and the usual suspects is to bill three times the salary. For example, if the Watson CPA Group pays a CPA $80,000 per year we hope to bill $240,000. 1/3 of this goes to salary, 1/3 goes to expenses and 1/3 goes to Jason's new boat in a land-locked state. Most professional firms should have net profits of about 30 to 35% (which is why CPA firms sell for about 1.1 times gross revenue… this suggests a 3-year payback period at 100% retention or about 5-6 years with the usual 60% retention… acceptable ROI).

Even if your profession is easily teased out from labor data, this 1/3 concept can still be used. The middle 1/3 above is allocated to expenses- why should you be penalized for running a leaner, meaner firm than the bloated clowns down the street?

Business Consultation

How does all this reasonable S Corp salary crud work? Let's schedule a time to chat! The Watson CPA Group offers expert small business consultation in-person, by telephone or via Skype. We love to Skype- faces, inflections, all the good stuff for our long distance clients. Heck, even people in the same building seem to prefer a phone call or Skype.

Your Name (required)

Your Email (required)

Phone

State

Business Name

How did you hear about us?

Read Your S Corp Book ▼

Your Message

Send

Our fee is $150 for 40 minutes. If we decide to press forward with an engagement, we will credit the $150 towards future services. If you don't need convincing and already want our services such as business tax return preparation or S Corporation subscription, and you simply have some housekeeping questions, we answer those at no charge. Charging a consult fee to tell you how great we are is not cool. We're not the Kardashians.

Consultations are scheduled on **Mondays, Wednesdays and Thursdays**. Yes, we can accommodate other days and after-hours, but those are reluctantly agreed to. We will answer your questions to determine three things-

- Do you need our help?
- Can the Watson CPA Group and its support staff help you?
- Can we work together as a collaborative partnership?

From there we can determine the best plan, and we will provide a quote for those services. You might be able to catch us online too-

Reasonable Shareholder Salary Recap

Keeping your salary low is what drives the savings in an S corporation. Recall that $10,000 in salary costs you about $1,530 in payroll taxes. However, through the IRS Fact Sheet and several tax court cases, the assignment of reasonable shareholder salary becomes qualitative in relation to several factors such as your role and qualifications, and the relationship to net income and distributions (just to name a few).

Labor data such as Risk Management Association (RMA) and Bureau of Labor Statistics (BLS) including RCReports can be hit or miss. Homogenized populations cannot definitely tell the IRS or the tax court what you should be paid. It could be a tool in your toolbox, or it could be one of the many nails in your coffin.

Also recall that self-employed health insurance and Health Savings Accounts (HSA) add to your Box 1 wages on your W-2. Let's say your reasonable salary is $60,000 and you pay $12,000 in health insurance premiums. You would pay yourself a $48,000 salary but your W-2 Box 1 and Line 7 (Officer Compensation) on your S corporation tax return would show $60,000, but only $48,000 is subjected to Social Security and Medicare taxes.

One of the best ways to win an argument is not have the conversation in the first place. The IRS is focused on S corporations who do not pay any salary, or who pay a ridiculously low salary. For them, it is an easy analysis. Line 7 versus Line 21 of the S Corp tax return (Form 1120S). They can also look at the K-1, Box 1 (ordinary income) and compare this to Box 16, Code D (distributions).

IRS scrutiny will only increase over time, but they also want winnable cases. The low hanging fruit is the S Corp without any reasonable shareholder salary. Why go after someone who is paying themselves $50,000 in salary just to settle on $60,000 after negotiation? An extra $1,530 in the IRS pocket for arguably a tough audit might not be worth it to them. This is contrasted to the person who pays themselves $10,000 and it should be $60,000. There's some cash in that IRS challenge!

There is a calculated risk when determining reasonable S Corp wage. You can eliminate the risk by paying yourself 100% of the net business income but then again that completely defeats the purpose of an S Corp. You can pay yourself 0% and wait for the audit. Or… ideally… you can operate in the soft middle.

We have all this and so much more such as Section 199A deductions, entity structures, small business tax deductions, etc. in our book-

LLCs and S Corp Book

S Corp Package

The Watson CPA Group specializes in S corporations which have a small number of shareholders, and are often just a one-person show. Did you know that 95% of all S Corps have only one shareholder, and 99% of all S Corps have three or fewer shareholders? Because small business is a core competency for us, we have created an S corp package that includes the following (No, the S doesn't stand for stormtrooper)-

	A la Carte*	Aspen	Vail	Breck	Keystone

S Corp Reasonable Salary Calculation (sample report)	$400	Yes	Yes	Yes	Yes
Section 199A QBID Tax Optimization (more info)	$300	Yes	Yes	Yes	Yes
S Corp Payroll Filings and Deposits	$1,200	Yes	Yes		
Annual Processing (W2s and other filings)	inc.	Yes	Yes		
S Corporation Tax Prep (Form 1120S)	$800 to $1,100	Yes	Yes	Yes	Yes
Individual Tax Prep (Form 1040), One Owner	$500 to $700	Yes		Yes	
Estimated Tax Payments (done thru payroll or directly by us)	$300	Yes	Yes	Yes	Yes
2018 Tax Planning, Mock Tax Returns (Tax Questionnaire)	$300 to $500	Yes	Yes	Yes	Yes
Unlimited Consultation and Periodic Business Reviews (PBR)	$1,200	Yes	Yes	Yes	Yes
First Research Industry Reports (sample report)	$150	Yes	Yes	Yes	Yes
Small Business Tax Deductions Optimization	inc.	Yes	Yes	Yes	Yes
IRS Audit Defense	NA	Yes		Yes	
Annual Fee		**$2,940**	**$2,640**	**$2,460**	**$2,160**
Monthly Fee		**$245**	**$220**	**$205**	**$180**

* A la Carte fee ranges are approximates. 90% of our clients fit into these fee ranges, but there are outliers. We have a handful of clients with over 30 rentals; their individual tax return is north of $2,500.

Couple of other things to keep in mind- we make very little profits on payroll processing… we offer it as a convenience to our clients. One throat to choke with a single call can be reassuring but if you want to run your payroll, go for it! And… the benefit of the Watson CPA Group preparing both tax returns is that we slide things around depending on income limitations, phaseouts, alternative minimum tax (AMT), Section 199A deduction optimization, etc. Having our arms around both can yield some good tax savings!

Some more things to consider- Since only a partial year remains, our usual annual fee is pro-rated to not charge you for services you didn't use (like payroll and consultation). However, a large chunk of our annual fee is tax preparation which is typically a fixed amount of $1,300 (both corporate and personal). Whether we onboard you in January, July or December, we have to prepare a full year tax return. This increases the monthly fee for the remaining months of 2018 but the monthly fee will later decrease in January of 2019 to reflect the amounts above. Yeah, we make it sound like 2019 is just around the corner.

No BS

We are not salespeople. We are not putting lipstick on a pig, and trying to convince you to love it, even if Tom Ford's Wild Ginger looks amazing. Our job remains being professionally detached, giving you information and letting you decide.

We see far too many crazy schemes and half-baked ideas from attorneys and wealth managers. In some cases, they are good ideas. In most cases, all the entities, layering and mixed ownership is only the **illusion of precision.** Just because you can complicate the crap out of your life doesn't mean you must.

Section 199A Deduction Optimization

Section 199A is a derivative of the recent Tax Cuts & Jobs Act of 2017. In a nutshell, business owners including rental property owners will enjoy a 20% deduction based on the qualified business income. There are limitations based on income, W-2 wages and depreciation. As a result, there is some optimization that is necessary for a small business owner to get the most from the Section 199A deduction. On one hand we want to reduce W-2 salaries to shareholders to minimize self-employment taxes. On the other hand, we want to increase W-2 salaries so they do not limit the amount of Section 199A that is deducted. Read our full Section 199A Qualified Business Income article by clicking on the button below-

Pass Thru Tax Reform

Our Business Expertise

As mentioned elsewhere we primarily focus on small business owners and their unique consultation and tax preparation needs. With 16 full-time consultation professionals including Certified Public Accountants and Certified Financial Planners on our team, the Watson CPA Group consults on corporate structures, S corp elections (even late S corp elections back to January), tax strategies, business coaching, industry analysis, executive benefits, retirement planning including individual 401k plans, exit strategies, business valuations, income tax modeling and tax representation.

We also work with business law attorneys in California, Texas and Colorado for business owners who have additional needs such as buying or selling a business including employee stock ownership plans and partner buy-ins. We also coordinate with Polycomp and RPS to create age-based profit sharing plans and cash balance (defined benefit) plans. We can run point on whatever your business needs so the communication is effective and efficient.

The button below links to our Periodic Business Review (PBR) Agenda. We use this throughout the year as a checklist for our business clients. We can also use it for any type of business consultation. Here are some other buttons that you might be interested in as well.

Periodic Business Review (PBR)
S Corp Questionnaire
Sample Biz Services Proposal
Business Tax Deductions

Click the button below to schedule a 40 minute consultation. Our fee is $150, but we credit that back to you if you decide to engage us for future services. Low risk, high- reward.

Business Consultation

How does all this work? Let’s chat!

The Watson CPA Group (team profile)