Small Business Tax Planning Part 2

Course #3162A

Taxes

2 Credit Hours

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SMALL BUSINESS TAX PLANNING PART 2

This course covers strategies for a variety of small business tax planning needs. Topics in this course include: the nuances of the alternative minimum tax, FICA, other employment taxes, estimated taxes, electronic filing, extensions, retirement planning, succession planning, and various types of audits.

LEARNING ASSIGNMENTS AND OBJECTIVES

As a result of studying each assignment, you should be able to meet the objectives listed below each individual assignment.

SUBJECTS

Alternative Minimum Tax
Other Taxes
Filing Tax Returns and Paying Taxes
Retirement and Succession Planning
Handling Audits with the IRS

Study the course materials from pages 1 to 72

Complete the review questions at the end of each chapter

Answer the exam questions 1 to 10

Objectives:

- Recognize the nuances of the alternative minimum tax.
- Recognize the specifics of FICA, employment taxes and more.
- Identify the nuances of estimated taxes, electronic filing, and extensions.
- Identify strategies for retirement and succession planning.
- Identify the various types of audits.

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EXAM OUTLINE

- **TEST FORMAT:** The final exam for this course consists of 10 multiple-choice questions and is based specifically on the information covered in the course materials.

- **ACCESS FINAL EXAM:** Log in to your account and click Take Exam. A copy of the final exam is provided at the end of these course materials for your convenience, however you must submit your answers online to receive credit for the course.

- **LICENSE RENEWAL INFORMATION:** This course qualifies for **2** CPE hours.

- **PROCESSING:** You will receive the score for your final exam immediately after it is submitted. A score of 70% or better is required to pass.

- **CERTIFICATE OF COMPLETION:** Will be available in your account to view online or print. If you do not pass an exam, it can be retaken free of charge.

TABLE OF CONTENTS

Chapter 1: Alternative Minimum Tax	**1**
Chapter 1: Test Your Knowledge	7
Chapter 1: Solutions and Suggested Responses	9
Chapter 2: Other Taxes	**11**
Chapter 2: Test Your Knowledge	31
Chapter 2: Solutions and Suggested Responses	33
Chapter 3: Filing Tax Returns and Paying Taxes	**35**
Chapter 3: Test Your Knowledge	49
Chapter 3: Solutions and Suggested Responses	51
Chapter 4: Retirement and Succession Planning	**53**
Chapter 4: Test Your Knowledge	59
Chapter 4: Solutions and Suggested Responses	61
Chapter 5: Handling Audits with the IRS	**63**
Chapter 5: Test Your Knowledge	69
Chapter 5: Solutions and Suggested Responses	71
Glossary	**73**
Index	**75**
Final Exam Copy	**76**

CHAPTER 1: ALTERNATIVE MINIMUM TAX

Chapter Objective

After completing this chapter, you should be able to:

- Recognize the nuances of the alternative minimum tax.

Reducing regular tax is only part of the battle that a small business owner wages to increase after-tax returns. Minimizing or avoiding alternative minimum tax (AMT) where applicable is another important front that must be addressed. Some business owners may find themselves subject to AMT if they have certain substantial deductions and/or credits. C corporations are no longer subject to the AMT, so the balance of this chapter refers to the AMT for individuals (i.e., owners of pass-through entities).

ALTERNATIVE MINIMUM TAX BASICS

Alternative minimum tax is designed to ensure that all taxpayers pay at least some tax. Years ago, with tax shelters and other loopholes, wealthy individuals and corporations often paid little or no tax. In an effort to make all taxpayers share the tax burden, an AMT was imposed.

The AMT is a separate tax system, with its own deductions and tax rates. A taxpayer computes the regular income tax as well as a tentative AMT. The extent to which the tentative AMT exceeds regular tax liability is reported as AMT.

Alternative minimum tax liability for individuals can be reduced by certain personal tax credits, including a limited foreign tax credit (corporations can reduce their AMT liability only by a limited foreign tax credit).

Individuals have a two-tier AMT rate structure of 26% on the first $194,800 of income subject to AMT in 2019 (called alternative minimum taxable income, or AMTI), plus 28% on any excess amount. For married persons filing separately, the 26% rate applies to AMTI up to $97,400. The amount subject to these tax rates is reduced by an exemption amount. This exemption amount is phased out for high-income taxpayers.

The AMT exemption amounts for 2020 are listed in Table 5.1.

The exemption for individuals begins to phase out when AMTI exceeds a threshold amount that depends on your filing status. For 2019, the thresholds are:

- $1,020,600 for married persons filing jointly and surviving spouses
- $510,300 for other filers

The exemption amounts for 2020 start to phase out when alternative minimum taxable income (AMTI) exceeds $1,036,800 for married filing jointly and surviving spouses and $518,400 for other filers.

Fortunately, AMT liability can be offset by nonrefundable personal credits.

TABLE 5.1 2020 EXEMPTION AMOUNTS

Filing Status	2019 Exemption
Married filing jointly/surviving spouse	$113,400
Single/head of household	$72,900
Married filing separately	$56,700

Who is subject to the AMT? Owners of pass-through entities (partnerships, LLCs, and S corporations) figure AMT on their individual returns. They include business items passed through to them and identified as AMT items on their Schedule K-1.

DEDUCTION LIMITS FOR ALTERNATIVE MINIMUM TAX

Certain deductions that were allowed for regular tax purposes may be disallowed or modified for AMT. If you claimed an itemized deduction for state and local taxes and foreign income taxes on Schedule A (Form 1040 or 1040-SR), you need to make an adjustment in figuring your alternative minimum taxable income.

The following deductions that were claimed on individual returns must also be modified for AMT purposes:

- Investment interest.
- Depreciation.
- Net operating losses (NOLs).
- Mining exploration and development costs (the regular tax deduction must be amortized over 10 years).
- Research and experimentation expenditures (costs must be amortized over 10 years if you are not a material participant in the business).
- Passive activity losses from nonfarming activities (losses are adjusted for items not deductible for AMT purposes).

Adjustments for Depreciation

The depreciation method that you use for regular tax purposes may require that an adjustment be made for AMT purposes. For AMT purposes, you are allowed only a limited depreciation deduction. If you claimed more for regular tax purposes, you must adjust your AMT income accordingly.

For property (other than real property) acquired after 1986, your AMT depreciation is limited to the 150% declining balance method, switching to straight line when a larger depreciation deduction results. For real property acquired after 1986, your AMT depreciation is limited to straight line over 40 years.

Note

Different adjustments apply to property placed in service before 1987. Follow the instructions to Form 6251.

For real property placed in service after December 31, 1998, an AMT adjustment is no longer required. For personal property placed in service after this date, a depreciation election can be made to use the same depreciation method for regular and AMT purposes so that an AMT adjustment is avoided. By making this election, depreciation is figured using the 150% declining balance method over the regular tax recovery period (instead of the 200% declining balance method).

Preference Items

Certain items that may have escaped the regular tax are subject to AMT. These include:

- Tax-exempt interest on private activity bonds issued after August 7, 1986.
- Exclusion of 50% of the gain on the sale of small business stock.
- Oil and gas preferences.
- Accelerated depreciation on real property acquired before 1987.

Net Operating Losses

The NOL deduction for regular tax purposes must be adjusted for AMT. This is because only a limited NOL deduction is allowed for AMT purposes by individuals. The NOL for AMT purposes is the regular tax NOL except that the nonbusiness deduction adjustment includes only AMT itemized deductions (i.e., state and local taxes and certain other deductions cannot be used to figure the NOL deduction).

You may be able to eliminate your AMT liability because of your NOL deduction. However, the NOL deduction cannot be more than 90% of AMT income (without regard to the NOL deduction). If you cannot use all of your NOL because of the 90% limit, you may carry it forward indefinitely. However, the carryback (for farming NOLs) and carryforward (for all NOLs) are also subject to the 90% limit.

Other Adjustments and Preferences

In figuring AMT income on which AMT tax is imposed, certain income items are also given special treatment. These include incentive stock options, long-term contracts, tax-exempt interest on private activity bonds, and basis adjustments for AMT gain or loss.