



# Small Business Tax Planning Part 2

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Course #3162C

Taxes

2 Credit Hours

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# SMALL BUSINESS TAX PLANNING PART 2

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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

**Tax Strategies for Multiple Businesses**

**Alternative Minimum Tax**

**Other Taxes**

**Filing Tax Returns, Paying Taxes, and Making Refund Claims**

**Retirement and Succession Planning**

**Handling Audits with the IRS**

Study the course materials from pages 1 to 69

Complete the review questions at the end of each chapter

Answer the exam questions 1 to 10

### Objectives:

- Identify helpful strategies when running more than one business.
- 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

## **NOTICE**

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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.

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# CHAPTER 1: TAX STRATEGIES FOR MULTIPLE BUSINESSES

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## Chapter Objective

**After completing this chapter, you should be able to:**

- Identify helpful strategies when running more than one business.

Multiple businesses” connotes multinational corporations with intertwining ownership of many entities. But small business owners may conduct different activities through various entities. These entrepreneurs simultaneously own and usually run 2 or more businesses. In fact, a 2022 Bank of America (BOA) survey found that 26% of small business owners had multiple businesses and of these 58% had 2 businesses and 30% had 3 businesses running at the same time.

There may be sound legal, business, and tax reasons for using multiple businesses rather than funneling all activities through a single entity. Liability issues, for example, are one good reason for operating separate activities through more than one business. This chapter focuses primarily on the tax implications of running multiple businesses.

## ADVANTAGES AND DISADVANTAGES OF MULTIPLE ENTITIES

Some activities can naturally and logically exist within a single entity. For example, a beauty salon can provide grooming services and sell beauty products using a single business. This makes sense. This can be done, for example, using a single entity or a holding company, with different activities run by different divisions, each with its own name.

For other situations, however, conducting different activities through separate entities makes more sense. Here are some pros and cons to using multiple entities. (The impact on the hobby loss rule of conducting separate activities is explained in course 3161.)

### Legal Reasons

There are usually no legal bars under state law to operating different activities within a single business. But separate entities are a way to create the utmost liability protection. Typically, building owners form separate LLCs or corporations for each property. In this case, it is not the owner’s personal liability that is being protected in case of lawsuits, but rather the assets of the properties on which the liability did not arise. For instance, say an individual owns 2 small motels. If there is a legal action against one motel, the other can be at risk unless each is a separate legal entity.

### Business Reasons

Administratively, it may be easier and less costly to run a single entity, but the activities may not be suitable to be joined in a single business. For example, say a computer consultant operating as a

single-member LLC also has an active eBay business. From a marketing perspective, it does not make good business sense to conduct the eBay activities through the same LLC; they can be run as a sole proprietorship or other entity formed exclusively for online selling.

## **Tax Reasons**

There may be tax reasons for separating businesses into different entities. Depending on the nature of each activity, one might be better operated on a calendar year, while it makes better sense to use a fiscal year for another.

It is usually wise to use a separate entity to own real estate that will be used by the business. This allows the owner to make decisions regarding the real estate without involving the business. For example, a single owner of a dental practice run as a professional corporation may buy a professional building, using an LLC. The practice can lease space from the LLC, but the owner can decide when or if to sell the building. Or, for estate planning reasons, the owner may decide to gift interests in the LLC to family members and cede ownership and/or control to younger relatives. As long as the terms of the lease are fair (i.e., a reasonable rent is charged), the practice can deduct its lease payments even though it is the dentist who is ultimately receiving the rents as owner of the LLC.

In deciding between a single entity or multiple entities, factor in the passive activity loss rules. If you are a silent partner in one activity and active in the other, losses from the silent (passive) activity cannot be used to offset income from the active business; if these separate activities were run within a single entity, income could be offset by losses, and it might be possible that no activity would be viewed as a passive activity because of your level of participation in the overall business.

If you have multiple businesses, you may be able to aggregate them to maximize the QBI deduction.

In deciding between a single entity or multiple entities, take state taxes into account. The added cost of additional state taxes for multiple entities may make using a single entity preferable.

## **WHEN TO RUN MULTIPLE ACTIVITIES WITHIN ONE BUSINESS**

It is not always better to use multiple businesses. Sometimes a single entity can meet business needs, with no tax disadvantages. Here are some reasons to opt for a single entity:

- Savings on legal and accounting costs. A single entity cuts down on the cost for entity formation as well as ongoing costs for accounting and tax return preparation. Series LLC (also referred to as cell LLCs), which is a group of individual LLCs, may be formed in a number of locations (see Table 5.1). Some states don't permit the formation of series LLCs but recognize those formed in other states ("foreign LLCs"). In this type of organization, the debts and liabilities of each LLC remain separate from those of the other LLCs. But using a master LLC makes things administratively easier and less costly.



**TABLE 5.1 LOCATIONS WHERE SERIES LLCs MAY BE FORMED**

Alabama	Kansas	Tennessee
Arkansas	Missouri	Texas
Delaware	Montana	Utah
District of Columbia	Nebraska	Virginia
Illinois	Nevada	Wisconsin
Indiana	North Dakota	Wyoming
Iowa	Oklahoma	

## TREATMENT OF MULTIPLE CORPORATIONS

C corporations that have certain intertwining ownership are called “controlled corporations” and are subject to special tax treatment. There are 2 types of controlled corporations:

1. *Parent-subsidiary controlled group.* One corporation owns (directly or indirectly) at least 80% of the stock of one or more other corporations.
2. *Brother-sister controlled group.* Two or more corporations are owned by 5 or fewer persons (persons include not only individuals, but also estates and trusts), who together possess at least 50% of the total voting power or value of the corporation and more than 50% of the combined voting power or value of all stock.

### Example



An individual owns all the stock of Corporation A and 75% of the stock of Corporation B. A and B are a brother-sister controlled group.

The status of a group can change from year to year. For instance, in the brother-sister situation, a sixth shareholder can enter the picture so that the group of corporations is no longer a controlled group.

## Advantages and Disadvantages

There are both advantages and disadvantages of a controlled group.

Advantages include:

- Minimizing payroll taxes when an employee works for more than one related corporation. Under the “common paymaster rule,” one corporation is designated as the paymaster responsible for payroll taxes so that each corporation does not pay payroll taxes that could have been avoided. For instance, in 2022, if a shareholder works for his 2 controlled corporations, earning \$150,000 from each, one is designated as a paymaster and pays the employer’s Social Security portion of FICA on wages up to \$147,000, a tax of \$9,114. Without a common paymaster, each corporation would owe this tax.