

Compensation and Tax Strategies

Course Description

This course examines the various ideas, methods, and techniques capable of optimizing the overall compensation package for key employees and principals in small to medium sized businesses. Qualified and non-qualified deferred compensation, benefit targeting, insurance programs, statutory fringe benefits, interest free loans, and investment planning are investigated. Effective pay plans essential to attract, motivate, and retain key people are described and evaluated. Consideration is given to indirect compensation in the form of business entertainment, expense accounts, auto use, travel, and transportation. Equity participation is explored through stock sales, repurchase agreements, incentive stock options, ESOTs, stock options, and bonuses. The new field of professional services is probed to provide tax, financial and estate planning to the key executive.

Completion Deadline & Exam: This course, including the examination, must be completed within one year of the date of purchase. In addition, unless otherwise indicated, no correct or incorrect feedback for any exam question will be provided.

Course Level: Overview. This program is appropriate for professionals at all organizational levels.

CPE Credits: 19 (CPA, EA)

Category: Taxation

Prerequisite: General understanding of federal income taxation.

Advanced Preparation: None

Course Learning Objectives

Chapter 1: Tax Economics

1. Identify financial and tax income types noting how cash management is used to acquire and operate assets, specify changes recently made to taxable income, determine how the passive loss rules categorize income and identify income splitting formats that can reduce tax.
2. Recognize basic cash management techniques and how to generate tax-free income, identify ways to defer income, and specify techniques to shelter income.
3. Determine the importance of budgeting noting rules to budget effectively, specify several cash usages, recognize financial acquisition guidelines for tax-advantaged investments, and specify multiple asset management rules.

Chapter 2: Business Planning

1. Recognize compensation strategies citing employer vs. employee perspectives, identifying parties' goals and objectives, and selecting compensation techniques to accomplish such goals.
2. Identify economic and tax trends particularly recent capital gain complexity noting rate "baskets" and their varying taxation, recognize the Section 469 "buckets" of income and loss that influence what a taxpayer can deduct against other income.
3. Specify several ways to defer income and accelerate deductions, and thereby expand business cash flow and planning opportunities.
4. Recognize the dangers of unreasonable compensation and their impact on deductions and distributions, and identify ways to avoid unreasonable compensation.

Chapter 3: Deferred Compensation Plans

1. Determine the meaning of "deferred compensation plan", cite questions for assessing deferral usage, and recognize multiple deferred compensation types so clients may properly structure compensation.
2. Identify client compensation decisions by specifying qualified deferred compensation restrictions, recalling the purposes, benefit formulas, and necessary contractual provisions for nonqualified plans, recognize the IRS's position on nonqualified compensation, determine "constructive receipt" and "economic benefit", and identify the differences among unfunded bare contractual promise plans, funded company account plans and segregated asset plans.
3. Recognize qualified deferred compensation plans and nonqualified plans, the major benefit of the qualified deferred plans, and the basis of the benefits and contributions, and identify the current and deferred advantages and the disadvantages of corporate plans noting fiduciary responsibilities and prohibited transactions.
4. Cite the requirements of the basic forms of qualified pension plans permitting clients to elect among such plans.
5. Identify defined contribution and defined benefit plans, specify the differences among the types of defined contribution plans, and recognize their effect on retirement benefits.
6. Determine the differences between self-employed and qualified plans identifying key choice of entity factors.
7. Cite the requirements of IRAs, SEPs, and SIMPLEs, and recognize tax-free Roth IRA distributions noting where changes may be necessary to maximize plan benefits.

Chapter 4: Basic Fringe Benefits

1. Recognize basic fringe benefit planning by determining “income” under §61, and identify the differences between former nonstatutory and current statutory fringe benefits created by recent cases, rulings, and tax law changes.
2. Specify the mechanics of typical fringe benefits, determine the fair market value of a fringe benefit under the general valuation rule or the special valuation rules, and identify the general accounting rule and the special two-month pour-over accounting rule.
3. Identify an “employee achievement award” under §274, and recognize the rules for group term life insurance under §79 noting how to implement proper coverage.
4. Determine the mechanics of self-insured medical reimbursement plans under §105, and specify the requirements of medical insurance under §106 noting differences.
5. Identify the rules for excluding the value of meals and lodging under §119, and “cafeteria plans” and how they operate.
6. Recognize the requirements and limits of employee educational assistance programs and dependent care assistance noting how to obtain each type of assistance.
7. Identify “no-additional-cost services” and determine what property or services are excludable from income as qualified employee discounts under §132(c), and specify exceptions to working condition fringes and de minimis fringes.
8. Determine the requirements for qualified transportation fringe benefits under §132(f), specify valuation methods for employer-provided automobiles and, identify the qualifications for the popular physical fitness exclusion, and the requirements and benefits of adoption assistance programs.
9. Recognize planning services available under §§132, 212 and 67, determine interest-free and below-market loans, identify child care benefits and corporate funded educational savings accounts, specify S corporation fringe benefits, and identify ERISA compliance requirements.

Chapter 5: Business Entertainment

1. Identify the key tax terms “entertainment,” “lavish” and “extravagant,” recognize the required tests to ensure that entertainment expenses can be deducted, determine the importance of the statutory exceptions and the treatment of ticket purchases noting the percentage reduction restriction for meals and entertainment and, specify the over arching 2% floor on miscellaneous itemized deductions and how it can reduce business entertainment deductions.
2. Determine what constitutes an “entertainment facility,” and identify substantiation, recordkeeping, reimbursement, and reporting requirements noting variations in methods, specify how to itemize non-reimbursed employee expenses and identify the special reporting rules for self-employed persons and employers.

Chapter 6: Business Travel & Transportation

1. Identify business travel and transportation concepts by specifying the differences between transportation and “tax home” sensitive travel to maximize deductible expenses.
2. Recognize how time acts as a critical factor in distinguishing a temporary from an indefinite job assignment, cite the “away from home” requirement, and determine the factors associated with the business purpose requirement.
3. Identify deductible meals, lodging, conventions, and meetings noting necessary compliance issues, specify the special requirements for cruises, determine the treatment of luxury water travel, recognize auto usage as a component of travel, cite the requirements for family member travel expenses and recognize the interplay of the "no additional cost" rule to ensure taxpayer compliance with §274.

Chapter 7: Insurance

1. Recognize the business and tax importance of available business insurance including the broad spectrum of company paid insurance, §79 group term life, retired lives reserve, split dollar, former death benefit plans, business travel, disability, medical, and dental specifying permitted coverage and tax treatment.
2. Determine the requirements and restrictions pertaining to the interest limitation on policy loans under §264, the interest limitation for tax-exempt interest income under §265, the conditions under which business owners may fully deduct amounts paid for medical and dental insurance and qualified long-term care insurance, recognize the application of the uniform capitalization rules, and identify the basic mechanics of health savings accounts.

Chapter 8: Equity Participation

1. Recognize equity participation by specifying factors that determine the benefits of stock options, determine how to transfer an equity position, identify controlled sales, and cite programs to provide executives with an equity ownership interest in a business.
2. Identify the taxation and use of nonqualified stock options under §83 noting the mechanism for stock appreciation rights (SARs) plans.
3. Recognize the requirements of §422A noting which insure that a qualified incentive stock option is available, and recall changes the TRA '86 made to the golden parachute rules and their effect on what constitutes a parachute payment.
4. Determine tax advantaged entity purchase and cross purchase agreements, recognize the importance of funding a

Chapter 9: Estate Planning

- 1.** Identify estate planning for business clients noting elements of estate tax planning that have remained unchanged by recent legislation, recognize the unlimited marital deduction including its effect on the gross estate of the value of property, and specify the applicable exclusion amounts for various years of death.
- 2.** Determine “stepped-up basis” noting the former “modified carryover basis” rules for estate tax purposes and identify the basis increase for certain business property.
- 3.** Specify several basic estate-planning goals and identify the benefits and drawbacks of the primary dispositive plans.
- 4.** Recognize the various types of trusts noting items necessary in business estate planning, specify multiple family estate documents that every taxpayer should consider, and identify the advantages and disadvantages of private annuities for the transferor and the transferee.