PacificCPE

COURSE
30903C

Financial Planning: Business Entities, AMT, and Marriage Tax

Three important areas of tax planning come together in this course. First, explore the tax treatment of various business structures—LLCs, partnerships, C corporations, and S corporations—including relevant updates from the TCJA and the One Big Beautiful Bill Act. Next, work through the mechanics of the Alternative Minimum Tax, including the minimum tax credit and how AMT is calculated. Finally, examine the tax implications of marriage and divorce, with a focus on distinguishing community property from separate property and the federal tax consequences of each classification.

CREDIT HOURS 2 | FIELD OF STUDY TAXES | EXAM QUESTIONS 10

Start Course ↓ | Final Exam Copy ↓

LEARNING ASSIGNMENTS AND OBJECTIVES

Assignment

- Study the full course materials included here.
- Complete the review questions after each chapter.
- Answer 10 final exam questions.
- Final exam is scored immediately, 70% or better passes.
- Certificate of completion is available in your account.
- Failed exams can be retaken free of charge.

Course Objectives

- Recall various tax implications on an individual business owner that result from different forms of business entities.
- Recognize items that affect the AMT calculation.
- Recognize the rules affecting the classification of marital property and how marriage or divorce can affect income tax liabilities.

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Chapter 1: TAXATION OF BUSINESS ENTITIES

Chapter Objective

After completing this chapter, you should be able to:

- Recall various tax implications on an individual business owner that result from different forms of business entities.

I. WHAT'S NEW: FROM THE TAX CUTS AND JOBS ACT OF 2017 (TCJA) AND THE ONE BIG BEAUTIFUL BILL ACT (OBBBA)

A. PASS-THROUGH DEDUCTION FOR QUALIFIED TRADE OR BUSINESS

The TCJA provides for a deduction of up to 20% of a pass-through business' qualified business income. **Note:** The OBBBA made this permanent. The deduction, depending upon the amount of qualified business income and other factors affecting it, may reduce the taxpayer's income tax liability significantly. However, the "other factors" that affect the deduction include:

- Whether the business is a qualified trade or business;
- The taxpayer's taxable income if the business is a specified service trade or business;
- The amount of W-2 wages paid; and
- The value of qualified property.

The amount of the pass-through deduction is equal to the **lesser of** A or B, where:

A. Is 20% of qualified business income; and

B. Is the greater of:

- 50% of W-2 wages paid; or
- 25% of W-2 wages paid + 2.5% of unadjusted basis of qualified property.

A pass-through business is a business organized and taxed as other than a regular corporation. The term "qualified business income" means the net amount of qualified items of:

- Income;
- Gain;

- Deduction; and
- Loss.

With respect to any qualified trade or business of the taxpayer to the extent they—the income, gain, deduction and loss—are effectively connected with the conduct of a trade or business within the United States and included or allowed in determining taxable income for the taxable year.

1. Qualified Trade or Business

A qualified trade or business, as the term is used with respect to the pass-through deduction, means any trade or business **other than:**

- A specified service trade or business, (generally one in which the principal asset is the reputation or skill of one or more of its employees); or
- The trade or business of performing services as an employee. (In other words, an employee of a business would not be considered a "qualified trade or business" whose income from such employment would qualify for the pass-through deduction.)

a. Exception for Specified Service Businesses Based on Taxpayer's Income

The disqualification does not apply to individuals engaged in a specified trade or business whose taxable income is less than the threshold amount ($403,500 for joint filers, $201,750 for all others in 2026) plus $175,000 in the case of a joint return and $75,000 for all others.[1]

The specified service business of an individual whose taxable income is less than the threshold amount plus $75,000 or $175,000, as applicable, will be treated as a qualified trade or business for purposes of the pass-through deduction. However, if the individual's taxable income exceeds the threshold amount but not the amount at which he or she would be disqualified for the deduction the qualified business income is reduced by the ratio of the taxpayer's taxable income in excess of the threshold amount to $75,000 (or $175,000 in the case of a joint return).

Note

The OBBBA makes the qualified business income (QBI) deduction permanent. It also increases the phase-in range for certain businesses from $50,000 to $75,000 for non-joint returns, and from $100,000 to $175,000 for joint returns beginning in 2026.

II. INTRODUCTION AND OVERVIEW

For individuals who own their own business, good financial planning includes selecting the appropriate type of entity for that business. There are many factors that go into choosing a type of business entity, but federal taxes, most notable self-employment tax and income tax, are certainly an important component of that consideration.

For purposes of federal tax, the law sets forth three basic models of taxation of businesses and individuals: subchapter C, subchapter K and subchapter S. Subchapter C applies to corporations. It imposes an entity level tax on the corporation as well as a tax on individual shareholders who receive corporate distributions (i.e., dividends).

TABLE 8-1. BUSINESS FORM AND TAXATION: ADVANTAGES AND DISADVANTAGES

Business Form	Advantage(s)	Disadvantage(s)
Sole Proprietorship	No “double taxation”; income reportedon individual return	Owner pays twice the amount of Social Security and Medicare tax than he would as an employee
Limited Liability Company	IRS “check-the-box” regulations allow entity to choose federal tax treatment	Active members subject to entity to choose federal tax treatment self-employment tax for Social Security and Medicare
Partnership	No “double taxation”; income taxed proportionately to each partner on their own personal returns	No personal limited liability proportionately to each partner on their protection for general partners
S Corporation	May elect to be treated similar to a partnership for purposes of federal taxation, so income is “passed through" to shareholders	Shareholders entitled to only limited employee benefits; limited to no more than 100 shareholders
C Corporation	Corporate tax rate does not go as high Shareholders not entitled as individual tax rate; health insurance to deduct the losses of the and group life insurance premiums (up corporation; “double taxation” to certain amount) are fully deductible and not taxable to employees	Shareholders not entitled to deduct the losses of the corporation; "double taxation"

Subchapter S status is available to C corporations that meet certain strict statutory requirements. It allows shareholders or relatively small corporations to avoid entity-

level taxation: similar to partnership treatment, allof the profits and losses of the corporation are passed through to the individual shareholders.

Finally, subchapter K applies to partnerships, limited liability companies and certain other unincorporated entities. Like S corporations, owners are allowed to elect pass-through taxation. Partnerships are not subject to the income tax. However, a partnership is required to file Form 1065, which reports the results of the partnership's business activities. Individual partners pay taxes on their individual returns.

The partnership net profit (loss) and the separately reported items are allocated to each partner according to the partnership's profit sharing agreement, and the partners receive separate K-1 schedules from the partnership. Schedule K-1 reports each partner's share of the partnership net profit and separately reported income and expense items. Each partner reports these items on his or her own tax return.

The two types of federal taxation that are most frequently considered in making a choice of entity are income tax and self-employment tax. Rules regarding income taxation of specific entities will be discussed later. Following is a discussion of self-employment tax and its application in choice of entity.

A. SELF-EMPLOYMENT TAX

Self-employment tax is a social security and Medicare tax that mainly affects persons who work for themselves. Many people consider ways to avoid self-employment taxes when considering a choice of entity. The reason is that the self-employment tax rate is double the rate paid by employees. For 2026, the rate consists of two parts: 12.4% for social security (old-age, survivors, and disability insurance) and 2.9% for Medicare (hospital insurance). There is, however, a cap on the amount of income that is subject to the social security tax portion. In 2026, for example, up to $184,500 of combined net earnings is subject to social security tax. Taxpayers can deduct half of their self-employment tax in figuring adjusted gross income; however, the adjustment does not affect the amount of self-employment tax actually owed.

In addition, wages in excess of $200,000 ($250,000 MJ) are subject to an additional Medicare tax of .9% and a 3.8% additional tax on the lesser of unearned income (exclusions apply) or wages in excess of the $200,000 ($250,000 MJ).