



With the enactment of the legislation known as the Tax Cuts and Jobs Act of 2017, a new provision of the Internal Revenue Code was born: Section 199A. As part of our third quarter theme “Let’s Get Down to Business,” we’re focusing this month on Section 199A and the new 20% QBI deduction. The impact of the legislation is significant and likely impacts most financial advisors’ business clients as well as financial advisors themselves. A recent case illustrates how our in-house Advanced Planning Attorney was able to analyze the situation, offer some insight into the options available and discuss how this may benefit the business.

THE SITUATION

Three business owners, who are structured as an S Corporation, contacted DBS Advanced Planning Attorney to discuss obtaining coverage for a buy-sell. During the conversation about finding premium, the CFO and owner indicated that their process for distributing earnings is to look at the profits of the last quarter of the year and pay those out as a W-2.

Our in-house advanced case design resource asked about his familiarity with the new 20% QBI deduction and explained that the deduction does not apply to W-2 income but does apply to K-1 distributions. So, instead of taking profit out as W-2 he might want to talk to his tax advisor about restructuring some of the W-2 as K-1 income as a way to report each partner’s share of the company’s earnings.

THE SOLUTION

Based on their tax return it looked like they only had about \$3,600 of QBI and about \$300,000 of W-2. Our in-house advanced case design resource mentioned that there is a requirement that they pay “reasonable” W-2 but beyond that they could do the balance as K-1 income and get a deduction.

Based on their tax return they had some room to change the character of the income and the potential tax saved could then be used to pay the insurance premium. **Solution obtained!**

Our talented in-house Advanced Planning Attorney, Terri Getman, JD, CLU, ChFC, RICP, AEP (Distinguished) works with you to find solutions for your clients. **Contact her at extension 230 to learn more.**

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