



## Some Little Known—But Important—Tax Strategies To Save You Money

Irv Blackman and Brian Whitlock are CPAs with Blackman Kallick Bartelstein, LLP in Chicago. Also lawyers, they specialize in estate planning, business succession and tax-free wealth creation. Need a seminar speaker? Want to consult? Need a second opinion? Contact Irv at:

**Blackman, Kallick, Bartelstein**  
10 S. Riverside Plaza, Ste. 900  
Chicago, IL 60606  
phone: 847/674-5295  
e-mail: [wealthy@bkbcpa.com](mailto:wealthy@bkbcpa.com)  
[www.taxsecretsofthewealthy.com](http://www.taxsecretsofthewealthy.com)

**Strategy No. 1**—Are you an S corporation? Be careful. The IRS is on the warpath. Why? Because many S corporation owners take small, or sometimes no salaries to avoid paying payroll taxes. Instead, they take dividends, which are not subject to payroll taxes. The IRS can catch you in two ways: an audit, or just by looking at your S corporation tax return and seeing a small “officers salary” on page 1 of your corporate return.

What to do? Get the salary up to a reasonable amount—what you would pay someone else to do what you do. If you render little or no services to your S corporation, a small salary is okay, but make sure to give an officer title to your key people who run the business, so that their salaries show up as officers salary on the S tax return.

If the IRS nails you, it will treat your hoped-for payroll-tax-free dividends as salary. Then you will be hung for the unpaid payroll taxes, plus interest and probably penalties.

**Strategy No. 2**—Generally, minimum distributions (like an IRA, 401(k) or a profit-sharing plan) must be made from a qualified plan no later than April 1 of the year following the latter of: 1) the calendar year in which the employee attains age 70½, or 2) the calendar year in which the employee retires. There is an exception for a 5-percent owner who must start taking minimum distributions no later than April 1 following the company’s plan year ending during the calendar year in which the employee becomes age 70½.

Here’s an IRS letter ruling that should help some readers. Joe is employed by Co. A and Co. B. He is a 5-percent stockholder of Co. A. Joe is a participant in

each company’s qualified plan. At age 70½, Joe must start taking minimum distributions from Co. A’s plan for the current calendar year and then roll-over his balance in the Co. A plan to the Co. B plan prior to the end of the same year.

Good news! The IRS ruled that Joe is not required to take minimum distributions from the Co. B plan for the amount rolled over from the Co. A plan until he reaches his normal retirement date—the later of 70½ or retirement.

This plan distribution area is a complex maze of technicalities. Never take your first distribution without the help of an expert. The penalties for a mistake are extreme.

**Strategy No. 3**—If you are thinking of selling your business to your kid(s), employee(s) or a mix of your kids and employees, ask your professional to read this case: Hurst (2005) 124 TC No. 2.

A victory for our side—The court held that Joe and Mary (50/50 owners of Success Co.) could sell it, on a 15-year installment sale, and be entitled to low-rate capital gains tax. The buyers are their son and two key employees.

I do not mean to play I-can-do-better, but if Joe and Mary had used an intentionally defective trust, their tax would be zero.

If you want to learn more, read the following special reports: 1) “A Tax Superstar...S Corporation”, No. 17; 2) “How to Triple Your Pension, Profit-Sharing or IRA Value” No. 28, and 3) “The Magnificent Intentionally Defective Trust, No. 7—\$27 each; \$45 for any two; or \$59 for all three. Write to Book Division, Blackman Kallick Bartelstein, LLP, 10 S. Riverside Plaza, 9th Floor, Chicago, IL 60606. **MF**