

FREE PREVIEW

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FREE SAMPLE CHAPTER

BARATELLI INSTITUTE - PRACTITIONER GUIDE SERIES

Tax Strategy Decoded

Entities - QBI - OBBBA - Cross-Border

SAMPLE CHAPTER IN THIS PREVIEW

Chapter 1 -- Business Entity Selection and Structure (OBBBA-Permanent §199A)

14-page preview - drawn from the 335-page full guide

BARATELLI INSTITUTE

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MENTORING AT SCALE

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ABOUT THIS FREE PREVIEW

Tax Strategy Decoded, Free Preview

Tax Strategy Decoded is a 335-page practitioner reference covering the full domestic and cross-border U.S. tax planning practice as it stands after the One Big Beautiful Bill Act of 2025. Twenty-three core chapters across five parts -- Foundations, Domestic Operations, International & Cross-Border, Families Across Borders, and Practitioner Application -- plus seven appendices, full IRC and Treas. Reg. citations, and a companion Excel workbook of working models.

This free preview gives you the cover, the complete table of contents (both Parts I-II and Parts III-V), the Reader's Roadmap persona table (so you can find your starting point), and one complete chapter -- Chapter 1, Business Entity Selection and Structure. It is the single highest-leverage tax decision a professional-service-firm owner makes, and the OBBBA-permanent §199A treatment is the decision-tree update that every owner who converted to C-Corp during the QBI-expiration window now has to model.

Read it the way a practitioner reads a reference: skim the TOC, find your role in the Reader's Roadmap, then read Chapter 1 cover-to-cover and check whether the entity structure you inherited still holds up against the post-OBBBA framework. If a 2023-2025 C-Corp conversion was made on the impending-QBI-expiration logic, the 10-year cost of leaving that structure in place is now modellable.

WHAT YOU GET IN THIS PREVIEW

Cover - About This Preview - Table of Contents - Reading Map by Role - one full sample chapter

Sample chapter: Chapter 1 -- Business Entity Selection and Structure: the S-Corp election, C-Corp trap, reasonable comp

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Page numbers refer to the stamped interior page number at the bottom of each interior page (corresponding to PDF page positions in the unbound 8.5x11 PDF). Sections marked (g) are glossary-anchored - a defined term is introduced on first use and recapped in Appendix F (Glossary). Part III chapters use the III-N prefix to disambiguate from Part II chapter numbering.

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READER'S ROADMAP

A Reading Map by Reader Type

Different readers come to this guide with different stakes and reading windows. The chapters below are sequenced for each reader type; read in the suggested order first, then circle back for context.

| You are... | Read in this order |
|--|--|
| Business Owner Domestic Operations Only | <ul style="list-style-type: none"> ● Part I - Foundations ● Part II - Domestic Operations ● Ch 1 - Entity selection ● Ch 2 - QBI ● Ch 7 - Retirement plan design ● Ch 13 - Succession <p><i>Entity selection, QBI, retirement plan design, and succession are the highest-leverage chapters for most domestic-only owners.</i></p> |
| Business Owner With Cross-Border Component | <ul style="list-style-type: none"> ● Part I - Foundations ● Part II - for the domestic core ● Part III - for the cross-border layer specific to your situation <p><i>Most multi-jurisdiction owners need both Parts II and III with their tax advisor.</i></p> |
| HNW Individual / Family Office Client | <ul style="list-style-type: none"> ● Part I - for entity-structure foundations ● Part III - for international planning (FBAR / FATCA / PFICs, foreign trusts, residency planning) <p><i>Cross-references to Estate Planning Decoded throughout.</i></p> |
| CPA / Tax Attorney Domestic Practice | <ul style="list-style-type: none"> ● Part I + Part II - as the comprehensive domestic reference ● Sample Part III - for the cross-border questions clients will eventually bring |
| CPA / Tax Attorney International Practice | <ul style="list-style-type: none"> ● Part III - as the cross-border practitioner reference ● Sample Part II - so you can route domestic questions back to the right specialist |
| Pre-Immigration / Expatriation Client | <ul style="list-style-type: none"> ● Part III directly ● Ch 10 - Pre-immigration ● Ch 16 - Expatriation ● Ch 17 - Four Readers, Four Situations <p><i>Coordinate with home-jurisdiction counsel.</i></p> |

Chapter 1

Business Entity Selection and Structure

The S-Corp election, C-Corp trap, reasonable compensation, and OBBBA's permanent §199A — the single highest-leverage tax decision available to a professional-service-firm owner.

IRC AUTHORITY: IRC §§1361, 1362, 1363, 1366, 1368, 3121, 3401, 1402; Treas. Reg. §§1.1361-1, 1.162-7; *Watson v. Commissioner*, 668 F.3d 1008 (8th Cir. 2012); Rev. Proc. 2013-30 (late S-corp relief).

IRC AUTHORITY: §§ 1361, 1362, 1363, 1366, 1368, 3121, 3401, 1402; Treas. Reg. §§ 1.1361-1, 1.162-7; *Watson v. Comm'r*, 668 F.3d 1008 (8th Cir. 2012); Rev. Proc. 2013-30 (late S-Corp relief) # OBBBA 2025 UPDATE §199A is now permanent under OBBBA — the prior rationale for C-Corp conversions (impending QBI expiration) is permanently eliminated. Any firm that converted to C-Corp in 2023-2025 based on QBI's anticipated expiration should immediately model the 10-year cost of that decision and evaluate conversion back to pass-through status. OBBBA also enhanced §1202 QSBS exclusions — relevant to C-Corp analysis for VC-backed firms.

THE FOUR STRUCTURES — WHAT THEY ARE AND WHAT THEY COST

The choice of entity structure is the single highest-leverage tax decision available to a professional service firm owner. It determines the self-employment tax treatment of all profits, the availability of the §199A QBI deduction, the optimal compensation design, the retirement plan contribution limits, and the exit tax consequences at sale. Most owners make this decision once — at formation — and never revisit it as income grows and tax law changes. That is a mistake that costs tens of thousands of dollars annually for high-income professionals. Structure Tax Form SE Tax QBI Available?

| Entity | Tax Form | FICA / SE Tax | QBI (§199A) Eligibility | Best Income Range |
|--------------------------------|-------------------|--------------------------------------|--------------------------|--|
| Sole Prop / SMLLC | Schedule C | \$15.3% on ALL profit | Yes — full SSTB limits | Under \$75K profit |
| Multi-Member LLC / Partnership | Form 1065 / K-1 | 15.3% on guaranteed payments + share | Yes — SSTB limits apply | Multiple owners, early stage |
| S-Corporation | Form 1120-S / K-1 | FICA on W-2 salary ONLY | Yes — most favorable | 100K+ profit; planning exit |
| C-Corporation | Form 1120 | None at entity level | NO — excluded from §199A | VC-backed; IPO; retained earnings strategy |

THE SE TAX CALCULATION — THE NUMBER THAT DRIVES THE S-CORP DECISION

Self-employment tax under §1401 is the foundation of the S-Corp savings analysis. Understanding its structure is essential. The Social Security component (§1401(a)) is 12.4% on net SE income up to the Social Security wage base (\$176,100 in 2026). The Medicare component (§1401(b)) is 2.9% on ALL net SE income with no cap. Additionally, the Additional Medicare Tax of 0.9% under §3101(b)(2) applies to income over \$200,000 (single) or \$250,000 (MFJ). One-half of SE tax is deductible above the line under §164(f) — partially offsetting but not eliminating the cost.

SE Tax by Income Level

* SS tax capped at \$176,100 wage base \times 12.4% = \$21,836. The 0.9% Additional Medicare Tax above \$200K/\$250K is assessed separately on Form 8959.

| Net SE Income | SS Tax (12.4%) | Medicare (2.9%) | Total SE Tax | §164(f) Deduction | Net SE Burden |
|---------------|----------------|-----------------|--------------|-------------------|---------------|
| \$100,000 | \$12,400 | \$2,900 | \$15,300 | \$7,650 | \$7,650 |
| \$200,000 | 21,836* | 5,800 | 27,636 | 13,818 | 13,818 |
| \$300,000 | 21,836* | 8,700 | 30,536 | 15,268 | 15,268 |
| \$500,000 | 21,836* | 14,500 | 36,336 | 18,168 | 18,168 |
| \$1,000,000 | 21,836* | 29,000 | 50,836 | 25,418 | 25,418 |

- SS tax capped at \$176,100 wage base \times 12.4% = \$21,836. The 0.9% Additional Medicare Tax applies above \$200K/\$250K but is assessed separately on Form 8959.

THE S-CORP SAVINGS ANALYSIS — THREE FIRM SIZES

CASE STUDY 1: SOLO PRACTITIONER — MANAGEMENT CONSULTANT, \$200,000 NET PROFIT

Solo Practitioner — Side-by-Side Comparison

| Line Item | Sole Proprietor | S-Corp (\$85K Salary) |
|--|-----------------|-----------------------|
| Net business profit | \$200,000 | \$200,000 |
| W-2 wages to owner | — | 85,000 |
| SE tax / employer FICA | 27,636 | 6,503 |
| §164(f) above-the-line deduction | (13,818) | — |
| QBI base | 200,000 | 115,000 |
| QBI deduction (20%) | (40,000) | (23,000) |
| Approx. federal income tax (MFJ, std. deduction) | 40,800 | 33,000 |
| TOTAL FEDERAL BURDEN | \$68,436 | \$45,506 |
| Annual savings vs. baseline | — | \$22,930 |
| Less S-Corp overhead | — | (2,500) |
| Net annual savings | — | \$20,430 |

| Line Item | Sole Proprietor | S-Corp (\$85K Salary) |
|-----------------|-----------------|-----------------------|
| 10-yr NPV at 7% | — | \$143,000 |

Case Study 2: Three-Partner Law Firm — \$1.5M Total Net Income

Law firm is an SSTB; QBI fully phased out above MFJ threshold. Strategy: maximize retirement contributions to bring income below threshold and recapture QBI.

| Line Item (per partner) | Partnership | S-Corp (\$150K Salary) |
|--|------------------|------------------------|
| Profit share | \$500,000 | \$500,000 |
| W-2 wages | — | 150,000 |
| SE tax / employer FICA | 35,797 | 22,950 |
| QBI deduction (SSTB; phased out at \$500K) | — | — |
| Approx. federal income tax | 155,000 | 95,000 |
| TOTAL PER PARTNER | \$190,797 | \$117,950 |
| Annual savings per partner | — | \$72,847 |
| Total savings for three partners | — | \$218,541 |

Case Study 3: 25-Person Accounting Firm — \$2M Owner Profit (5 Partners)

Accounting firm is an SSTB but income kept below threshold preserves full QBI. Salary discipline is the key planning lever. Exit planning: with 5 partners, buy-sell agreement review is critical (see Chapter 13).

| Line Item (per partner) | Amount |
|--|--------------------------------|
| Profit share (each of 5 partners) | \$400,000 |
| W-2 salary (kept below MFJ phase-out) | \$160,000 |
| FICA per partner (\$160,000 × 15.3%) | \$24,480 |
| QBI base (\$400K – \$160K) | \$240,000 |
| FULL QBI deduction (20% × \$240K) | \$48,000 |
| QBI value at 37% bracket | \$17,760 |
| Retirement optimization (Solo 401(k) + cash balance, age 55) | \$240,000 shelter |
| Tax savings on retirement contributions at 37% | \$88,800 / yr / senior partner |

THE REASONABLE COMPENSATION REQUIREMENT

The most audited issue in S-Corp taxation is officer compensation. Under §3121(d)(1), an officer who performs services for an S-Corp is an employee for FICA purposes and must receive reasonable W-2 wages before distributions. The standard derives from §162(a)(1): 'a reasonable allowance for salaries or other compensation for personal services actually rendered.' *Watson v. Commissioner* (8th Cir.

2012) is the controlling precedent: a CPA paid \$24,000 in salary while taking \$175,000 in distributions had \$67,000 reclassified as wages.

The practical safe zone: salary set at 40-60% of net S-Corp profit, documented with BLS Occupational Employment and Wage Statistics data, industry compensation surveys, and contemporaneous board minutes reflecting the decision made before the tax year begins. **COMMON MISTAKE.** / **AUDIT RED FLAG** The most common inadvertent S-Corp termination: a shareholder transfers stock to a trust without confirming the trust qualifies as an S-Corp shareholder. A revocable living trust qualifies automatically during the grantor's lifetime — but an irrevocable trust must be a QSST or ESBT to hold S-Corp stock.

A transfer to a standard irrevocable trust terminates the S-Corp election on the transfer date, potentially affecting multiple prior years. See Estate Planning Decoded for full QSST/ESBT analysis.

S-CORP ELECTION MECHANICS — FORM 2553

The S-Corp election is made by filing Form 2553 (Election by a Small Business Corporation) with the IRS Service Center. Eligibility under §1361(b): domestic corporation only; no more than 100 shareholders; only allowable shareholders (U.S. citizens/residents, certain trusts, estates); one class of stock only (voting differences permitted; economic differences destroy the election). New entity: file within 75 days of formation for current-year effectiveness. Existing entity: file during the preceding tax year or by March 15 of the election year. Rev. Proc. 2013-30 provides retroactive relief for late elections in most circumstances.

WHEN THE C-CORPORATION MAKES SENSE — AND WHEN IT DOESN'T

The C-Corporation is the right answer for professional service firms in a narrow set of circumstances: venture-backed or PE-backed firms requiring C-Corp structure for §1202 QSBS gain exclusion (OBBA enhanced these exclusions); firms planning an IPO; firms with significant retained earnings that will not be distributed. The C-Corp definitely does NOT make sense for most professional service firms: any firm extracting most profits annually faces double taxation that eliminates the 21% corporate rate advantage; PSCs under §448(d)(2) pay 21% flat with no graduated rates; and every dollar lost from the §199A deduction costs 7.4 percentage points on eligible income (20% × 37%).

What Most Firms Get Wrong

- **Treating LLC formation as a tax strategy** — an LLC is a legal structure, not a tax structure. Sole proprietors forming LLCs without an S-Corp election remain subject to SE tax on all profit.
- **Setting S-Corp officer compensation arbitrarily** — without documented market analysis. This is the IRS's highest-value audit target in S-Corp examinations.
- **Failing to run payroll after making the S-Corp election** — the election is meaningless without actual W-2 wages and payroll tax deposits.
- **Missing the S-Corp election deadline and assuming it's too late** — Rev. Proc. 2013-30 provides retroactive relief in most cases, often going back 1-2 years.
- **Operating a professional service C-Corp without recognizing PSC status** — PSCs get the worst of both worlds: 21% flat rate, double taxation on distributions, and loss of §199A.

CHAPTER 1: PRIORITY ACTIONS

- **Calculate current annual SE tax burden** — this is the S-Corp savings baseline.
- **If profit exceeds \$75,000 as sole proprietor** — run a formal S-Corp comparison with three salary scenarios.
- **If existing S-Corp** — document reasonable compensation with BLS OES data annually.
- **If C-Corp** — determine PSC status and model 10-year NPV of conversion to S-Corp.
- **Post-OBBA** — model permanent §199A into entity selection NPV; update all pre-2025 structure analyses.

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END OF FREE PREVIEW

Decide. Act. Now.

What you just read is one chapter of twenty-three. The full guide takes the same level of operational care into the permanent §199A and the SSTB phase-out, the multi-state tax action plan (PTET, apportionment, and SALT-cap), retirement-plan design across the Solo 401(k) / SEP / cash-balance stack, worker classification under the post-Vohra IRS guidance, the depreciation strategy stack (§179, bonus, §168(k) phase-down), R&D credits and §174 capitalization post-OBBBA, business succession and exit planning, the full cross-border practice (FBAR/FATCA/PFIC/CFC, treaty residency, pre-immigration and expatriation planning), and the Four Readers / Four Situations practitioner walkthroughs.

The companion Excel workbook operationalizes the frameworks -- entity-comparison calculators, the QBI/§199A optimizer, state-apportionment worksheets, the retirement-plan stack model, and a depreciation-strategy decision tree.

If you advise on tax structure for owners, executives, or cross-border families and you need a single post-OBBBA reference on the desk, this is it.

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