

Late S Corp Election

TARDY SLIP

Date _____
Time _____

Student _____

Was Tardy For the Following Reasons _____

ADMIT STUDENT TO CLASS

EXCUSED
 UNEXCUSED

Principal School Authority Signature _____ Date _____

COOLKIDOUTDOOR.COM/MAINTENANCE

Late S Corp Election

Posted July 28, 2019

S Corp status back to **January 2019?** No problem! The late S corp election can easily be done well into 2020 for 2019 as well! For well over a decade, the Watson CPA Group does about 100-120 of these per year with 100% success. Zero calories. No trans fats. Add a splenda to the tax savings, and it becomes Yum!

Do you remember the old Van Halen song, Hot for Teacher? "I don't feel tardy." We don't want you to feel tardy about your election to be taxed as an S corporation.

So if you are past the 75 days, no worries- in true IRS fashion there is one rule (don't be tardy), and fifty exceptions (my dog ate it). Form 2553 is no different, but it has to be done correctly and we can help!

S Corp Election Checklist

So we showed you all the benefits, fees and such... but we need to put the horse back in front of the carriage. Let's go through a quick checklist to ensure that we are not going down the wrong road. As Doc Brown in Back to the Future says, "Roads? Where we're going, we don't need roads." Well, in S Corp land we do-

1. Does your business earn over \$30,000 net income after expenses? **Say Yes.**
2. Are you located in New York City or Tennessee where S corporation tax rates are egregious and suck up all the federal tax savings? New Hampshire? **Say No.** Although there might be exceptions where an S Corp makes sense NYC, TN and NH in order to maximize Section 199A deduction benefits.
3. Do you have other W-2 income that exceeds or comes close to exceeding the Social Security limits of \$132,900 (2019)? **Say No.** If you say Yes, we need net business income to exceed \$200,000 in #1 above so that the Medicare savings exceeds the "lost" Social Security tax paid by the S Corp.
4. Is this a going concern? In other words, is the business going to continue to earn the same income or more each year? **Say Yes.**
5. Do you have an LLC or some other entity in place that can be elected to be taxed as an S Corp? **Say Yes.** If you say No, we have options just not elegant ones such as shelf corporations.
6. Do you have other partners besides a spouse... business partners, that is? **Say No.** If you say Yes, are you currently splitting income based on ownership percentages or some formula? If you say Formula, then we'll need to explore a **multi-entity arrangement.**
7. Does your entity own any appreciating assets such as real estate? **Say No.** We don't put appreciating assets into an S corporation. Holding companies own real estate and operating companies elect S Corp status. Chinese Wall.

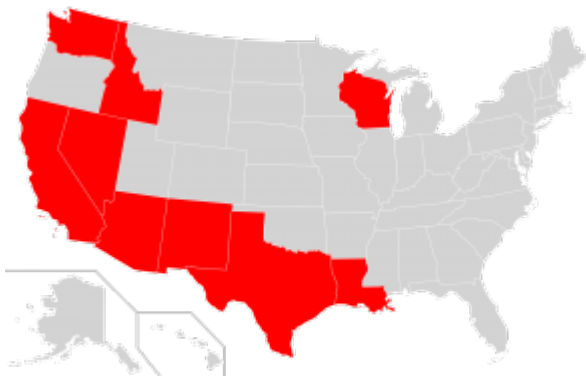
Are you still here? Excellent news... read on! You can also complete a PDF version of the above questions, and send them to us for review-Common S Corp candidates and current clients for the Watson CPA Group are consultants, engineers, financial advisors, physicians, chiropractors, doctors, surgeons, anesthesiologists, nurse anesthetists, insurance agents, attorneys, photographers (the profitable ones), online retailers, FBA retailers, real estate agents, good old fashioned widget makers, among several others. We also have several medical groups and financial advisor teams. Yes, even those deemed to be specified service trades or businesses still benefit with Section 199A coupled with an S Corp election!

Late S Corp Election Advantages

As you know, being taxed as an S Corp has huge tax savings because you avoid self-employment taxes. Through an S Corp election you are limiting the amount of income subject to Social Security and Medicare taxes which are bundled to be called self-employment taxes. **The savings is easily 8-10% of your net business income after expenses** (based on 100,000 net biz income), and if you need more information on how this works and other S corporation advantages click on the button below-Still not sure or not convinced? No problem... please check out Line 57 on your Form 1040 (Schedule 4) tax return. This number reflects the self-employment taxes paid on your business income. We want to reduce this by 60 to 65%. So, if this number is \$15,000 then we probably get this down to about \$7,000 or so.

Form 2553 (the S Corp election form) must be filed with the IRS which tells the IRS that your entity (LLC, partnership or C corporation) wants to be taxed as an S corporation. It is typically due within 75 days of forming your business entity or the start of your fiscal year, however, there is relief for the late filing of Form 2553 and the Watson CPA Group can guide you through that. IRS Revenue Procedures 2003-43 and 2004-48 used to be the governing rules but the IRS has simplified the procedure (imagine that!).

[IRS Revenue Procedure 2013-30](#), effective September 3 2013, allows an entity to get relief and file a late S Corp election within 3 years and 75 days from the date the election was originally intended to be effective. Holy cow. Three years! The IRS is basically saying that if you walk, talk and smell like an S Corp, then you are an S corporation.



So, if it is November 2019, and you want to go back to January 1, 2019 for setting up S corp status, no problem. We prepare and file Form 2553 under IRS RevProc 2013-30, open payroll accounts in your home state (yup, payroll!), process a payroll event that encompasses the entire year and you get a nice W-2. Done! All that is left is preparing your S corporation tax return on Form 1120S and your individual tax return. Let's talk about the fees... here is a snapshot of our fees to do all this for you-

- Late S Corp Election, **\$375** (\$300 for timely elections)
- Payroll Setup, **\$300-\$450** (CA, CO, TX easier... NY and PA, rough, like a stucco bathtub)
- Q4 Payroll Event and Tax Planning, **\$450** (or \$250 if we skip tax planning)

Five states require a separate S corporation election form to be filed- Arkansas (really?!), New York, New Jersey, Ohio and sometimes Wisconsin.

If you live in a community property state such as Arizona, California, Idaho, Louisiana, Nevada, New Mexico, Texas, Washington and Wisconsin your spouse might need to sign the Form 2553 even if he or she is not a shareholder. As a side bar, community property laws originate from Spanish property laws which is why most of our bordering states are community property states (red does not mean Republican). Wisconsin has no excuse, and Idaho was just caught in some peer pressure from Washington and Nevada.

Section 199A Deduction

Section 199A deduction also known as the Qualified Business Income deduction (QBID) arises from the Tax Cuts & Jobs Act of 2017. This is a significant tax break for small business owners but there are rules and limits of course. We have written a short article which outlines what is considered a qualified business for the qualified business income deduction including the dreaded specified service trade definitions (which is easily summed up as “any trade or business where the principal asset is the reputation or skill” of the owner). All this stuff is in our book as well!

Click on the button below for our articles-**S corporations remain a critical tax saving tool for two reasons**. First, the usual self-employment tax savings remains intact for all business owners including specified service trades or businesses. Second, a business owner might need to pay W-2 wages to himself or herself to not be limited by income, and only corporations can pay W-2 wages to owners (in other words, an LLC cannot without an S Corp election). Read the article above for riveting information!

This information is also incorporated into our book including examples and calculations. Happy Happy Joy Joy!

2019 Late S Corp Election

Let's say it is March 2020 (tax season) and you are freakin' out because you forgot to make the S Corp election earlier. You can still file a late S Corp election Form 2553 back to January 1, 2019 but there are hiccups. Isn't hiccups such a friendly word? Sort of like bumps in the road. No one says pitfalls or disasters anymore, just hiccups.

Bottom line is we can engage in some revisionist history on March 1, 2020 and back date Shareholder Wages / Officer Compensation for December 31, 2019 via a 1099-MISC issued from your S Corp to you individually. No worries, this is a one-time mulligan. We have been successfully, legally and ethically doing this since 2007 under IRS guidance. You'll need real payroll and a real W-2 in 2020 to brace for that required impact. Fees-

- Prior Year Late S Corp Election, **\$375**
- Officer Compensation via 1099 and Tax Planning, **\$350**
- 2018 Corporate and Personal tax returns, typically about **\$1,300** for both

Total out the door for 2019 is **\$2,025**. So, if you have \$100,000 in net business income after expenses, **you'll still pocket about \$6,000 after our fee** and your S corporation will be set up and ready to go for 2019 and 2020 (you still need payroll setup). Boom! Economists love cost-benefit stuff. Other humans just like money.

If your current CPA or tax professional says No, we suggest you find a new accountant (or at least educate him or her). The Watson CPA Group has been doing this for over a decade (there was relief provisions prior to the 2013 issuance of IRS Rev Proc 2013-30) without major problems. Three things happen simultaneously with a the prior year late S Corp election-

- Filing of Form 2553,
- Determining reasonable Shareholder Wage / Officer Compensation, and
- Preparing the S corporation's tax returns (Form 1120S)

Since the IRS is a huge organization, the right hand doesn't always talk to the left hand. Shocking, we know. Therefore it is common for the corporate tax returns to be rejected since the late S Corp election is not processed. Not to worry, we simply re-submit and we are batting 100% for over a decade in getting the late S corp election pushed through. Of course, your mileage might vary and you could be the one like Maverick in Top Gun, but we seriously doubt it.

Late S Corp Election Steps

Let's break down the late S corporation election into steps. Yeah, we just gave you the basics above, but let's dig deeper and get a bit granular shall we? We shall! Assume it is March 1 and the March 15 tax return filing deadline for an S Corp is right around the corner. Here we go-

1. We prepare and submit Form 2553 to the IRS, and your state if necessary.
2. We prepare your S Corp tax return (Form 1120s), and wait since it takes 10-12 weeks for the IRS to process the S

Corp election.

3. We mail your S Corp tax return extensions (Form 7004), and obtain a time and date stamp via the USPS. We cannot electronically file the extension since your S Corp election has not been processed.
4. We prepare your individual tax return (Form 1040), and compute any tax liabilities that are due. Hopefully you made estimated tax payments and you are getting a big refund from the S Corp savings.
5. You send in an extension tax payment (if necessary), and we extend your individual tax return since it has a K-1 from your S Corp being reported on page 2 of Schedule E... but your S corporation "doesn't exist yet" so the IRS cannot properly process your individual tax return.
6. On or about May 15 the IRS sends an S Corp election acceptance letter.
7. We efile both your S Corp tax return and your individual tax return. Wait! You are not done yet.
8. On or about July 3, right before a nice long weekend in the mountains, you receive a late filing penalty of \$200 per month per shareholder ruining whatever relaxation was ahead of you. Oh... and it came in around 5:01PM after our offices closed.
9. You call our office precisely at 8:00AM freakin' out about the penalty.
10. We freak out too... why not? Might as well really spin this up. Then we calmly say, "We'll contact the IRS and get their wires uncrossed and ask them to abate the penalty."

We have a 100% success rate on putting humpty dumpty back together.

Late S Corp Election Consultation

How does this late S corporation election, Form 2553, reasonable cause addendum, and blah blah blah all work? You probably have a good idea reading all this... but you might want to put it all together in a conversation so we can apply the process to your unique world. Let's schedule that today!

Name (required)

Business Name

Email (required)

Phone Number (slightly required so we can stalk you)

State

Submit

Our fee is \$150 for 40 minutes (such a deal for you!). If we decide to press forward with an engagement, we will **credit the \$150 towards future services**. If you don't need convincing and already want our services such as business tax return preparation or S Corporation subscription package, and you simply have some housekeeping questions, we answer those at no charge. Charging a consult fee to tell you how great we are is not cool.

Consultations are scheduled on weekdays during the work day. Yes, we can accommodate other days and after-hours, but those are reluctantly agreed to after some eye-rolling and complaining. We will answer your questions to determine three things-

- Do you need our help?
- Can the Watson CPA Group and its **support staff** help you?
- Can we work together as a collaborative partnership?

From there we can determine the best plan which might be a simple "keep on keeping on"; otherwise we will construct a malleable plan together and provide a quote for those services.

Shockingly we actually return all consultation requests via email and phone call. No black holes here!



S Corp Package

The Watson CPA Group specializes in S corporations which have a small number of shareholders, and are often just a one-person show. Did you know that 95% of all S Corps have only one shareholder, and 99% of all S Corps have three or fewer shareholders? Because small business is a core competency for us, we have created an S corp package that includes the following (No, the S doesn't stand for stormtrooper)-

	A la Carte*	Aspen	Vail	Breck
S Corp Reasonable Salary Calculation (sample report)	\$400	Yes	Yes	Yes
Section 199A QBID Tax Optimization (more info)	\$300	Yes	Yes	Yes
S Corp Payroll Filings and Deposits	\$1,200	Yes	Yes	
Annual Processing (W2s and other filings)	inc.	Yes	Yes	
S Corporation Tax Prep (Form 1120S)	\$800 to \$1,200	Yes	Yes	Yes
Individual Tax Prep (Form 1040), One Owner	\$500 to \$700	Yes		Yes
Estimated Tax Payments (done thru payroll or directly by us)	\$300	Yes	Yes	Yes
2019 Tax Planning, Mock Tax Returns (Tax Questionnaire)	\$300 to \$500	Yes	Yes	Yes
Unlimited Consultation and Periodic Business Reviews (PBR)	\$1,200	Yes	Yes	Yes
First Research Industry Reports (sample report)	\$150	Yes	Yes	Yes
Small Business Tax Deductions Optimization	inc.	Yes	Yes	Yes
IRS Audit Defense	NA	Yes		Yes
	Annual Fee	\$2,940	\$2,700	\$2,640
	Monthly Fee	\$245	\$225	\$220

Note: A la Carte fee ranges are approximates. 90% of our clients fit into these fee ranges, but there are outliers. We have a handful of clients with over 30 rentals; their individual tax return is north of \$2,500. We also are assuming one state; if your business spans the galaxy (keeping with our stormtrooper motif) then additional fees will be discussed with you and implemented. Typically each state is around \$250 since it affects both your business and individual tax returns (frankly, state apportionment is a pain in the butt, but it is our pain).

Couple of other things to keep in mind- we make very little profits on payroll processing... we offer it as a convenience to our clients. One throat to choke with a single call can be reassuring but if you want to run your payroll, go for it! Everyone thinks payroll is a piece of cake; write a check and done. Nope... we see a lot of mistakes being made by clients especially the handling of health insurance and HSA contributions since there are special rules.

You can prepare your own individual tax return (Vail package) as well... but the benefit of the Watson CPA Group preparing both tax returns is that we slide things around depending on income limitations, phaseouts, alternative minimum tax (AMT), Section 199A deduction optimization, etc. Having our arms around both can yield some good tax savings!

Some more things to consider- when a partial year remains, our usual annual fee is pro-rated to not charge you for services you didn't use (like payroll and consultation). However, a large chunk of our annual fee is tax preparation which is typically a fixed amount of \$1,300 (both corporate and personal). Whether we onboard you in January, July or December, we have to prepare a

full year tax return. This increases the monthly fee for the remaining months of 2019 but the monthly fee will later decrease in January of 2020 to reflect the amounts above. Yeah, we make it sound like 2020 is just around the corner.



No BS

We are not salespeople. We are not putting lipstick on a pig, and trying to convince you to love it, even if Tom Ford's Wild Ginger looks amazing. Our job remains being professionally detached, giving you information and letting you decide.

We see far too many crazy schemes and half-baked ideas from attorneys and wealth managers. In some cases, they are good ideas. In most cases, all the entities, layering and mixed ownership is only the **illusion of precision**. Just because you can complicate the crap out of your life doesn't mean you must.

Section 199A Deduction Optimization

Section 199A is a derivative of the recent Tax Cuts & Jobs Act of 2017. In a nutshell, business owners including rental property owners will enjoy a 20% deduction based on the qualified business income. There are limitations based on income, W-2 wages and depreciation. As a result, there is some optimization that is necessary for a small business owner to get the most from the Section 199A deduction. On one hand we want to reduce W-2 salaries to shareholders to minimize self-employment taxes. On the other hand, we want to increase W-2 salaries so they do not limit the amount of Section 199A that is deducted. Read our full Section 199A Qualified Business Income article by clicking on the button below-

[Pass Thru Tax Reform](#)

Our Business Expertise



As mentioned elsewhere we primarily focus on small business owners and their unique consultation and tax preparation needs. With 16 full-time consultation professionals including Certified Public Accountants and Certified Financial Planners on [our team](#), the Watson CPA Group consults on corporate structures, S corp elections (even late S corp elections back to January), tax strategies, business coaching, industry analysis, executive benefits, retirement planning including individual 401k plans, exit strategies, business valuations, income tax modeling and tax representation.

We also work with business law attorneys in California, Texas and Colorado for business owners who have additional needs such as buying or selling a business including employee stock ownership plans and partner buy-ins. We also coordinate with Polycomp and RPS to create age-based profit sharing plans and cash balance (defined benefit) plans. We can run point on whatever your business needs so the communication is effective and efficient.

The button below links to our Periodic Business Review (PBR) Agenda. We use this throughout the year as a checklist for our business clients. We can also use it for any type of business consultation. Here are some other buttons that you might be interested in as well.

[Periodic Business Review \(PBR\)](#)

[Sample Biz Services Proposal](#)

[S Corp Questionnaire](#)

[Reasonable S Corp Salary](#)

[Business Tax Deductions](#)

[Auto Purchase Questionnaire](#)

Click the button below to schedule a 40 minute consultation. Our fee is \$150, but we credit that back to you if you decide to engage us for future services. Low risk, high- reward.

[Business Consultation](#)

How does all this work? Let's chat and figured it out together!

Late LLC Formation with S Corp Election

One of the situations we face often is when taxpayers are operating as a sole proprietor without an LLC or other entity structure. This doesn't allow for an S Corp election and subsequent tax savings. So, what can be done? We create an LLC immediately and elect it to be taxed as an S corporation. Next, we allocate income and expenses between the sole proprietorship and the S Corp using the date of inception. Finally, we shift the remaining income by issuing a 1099-MISC from the sole proprietorship using your SSN to the S corporation's EIN (income nomination). This gets tricky and needs extended discussion.

Self Employed 401k Plan

Now that you can save thousands of dollars in self employment taxes with an S Corp election, you should invest that wisely. The Watson CPA Group is a small business too, and we understand that any extra dollars usually get invested back into the growing company. Having said that, there are several small business retirement plans which include solo 401k plans, profit sharing plans, cash balance and defined benefits pensions.

For example, with a solo 401k plan piggybacked with a defined benefits pension, you could sock away over \$192,000 at age 50. All tax deferred if you like, which could yield a savings of over \$86,000 (assuming a 45% marginal tax rate with federal and state). Wow!

Note how we purposely did not mention SEP IRAs. These are old school and are usually designed to be crisis management tools (after the fact) rather than good planning tools. Read more about the various self employed retirement options, including retirement tax bombs and the difference between tax deferral and tax savings below-Please contact us today to get started on the late S corp election. All the cool kids are doing it- well, most, and we'll have to ask several questions to make sure the fit is right.