



Thanks to TCJA, new Reasonable Compensation figures provide significant client savings

Customer Profile

Rick Oelerich, LPA, EA is the principal owner and manager of Oelerich, Reiling, & Miller, a public accounting firm located in Davenport, IA. He provides a wide range of advisory, accounting, and tax services.

More information about Rick and Oelerich, Reiling, & Miller can be found at <http://www.oataxpro.com>.

Background

In December of 2017, the most far-reaching tax bill in three decades was signed into law. The Tax Cuts and Jobs Act (TCJA) modified many tax brackets for individuals, but companies got the lion's share of the benefits with substantial reductions in their rates. As a result, many companies found it beneficial to change their status.

Rick Oelerich of Oelerich, Reiling, & Miller was in just such a situation. His firm had been the tax preparer for a small, closely held business in Iowa that had been operating as a C-Corp. When the TCJA went into effect in 2018, he examined the company's financials and advised them it would be beneficial to make an S-Election. They had been funding their dividends through the use of a preferential tax bracket, however, the TCJA eliminated this bracket. The company's shareholders had been taking as much income as possible from the corporation, but when their status changed to an S-Corp, it became necessary to reduce their income by \$75,000.

Challenges

It was possible that a reduction in income for shareholders of over \$75,000 would attract the attention of the IRS. This reduced income, coinciding with an S-Election, made it more likely that the tax preparation firm may have to defend the decision from an IRS challenge. However, the reduction in tax liability still made the process worthwhile.

Mr. Oelerich was able to utilize definitive data from RCReports to provide the support that the new incomes taken by the shareholders were within the bounds of reasonable compensation. By preparing reasonable compensation analysis online through RCReports.com, Mr. Oelerich could provide the company's files with the necessary documentation even before a challenge was faced. According to Mr. Oelerich, "A reduction in salary of over \$75,000 would have been difficult to defend without using a tool like RCReports."

Knowing they were already prepared to defend the lowering of the salaries in the event of an IRS challenge helped to put the client at ease. This, combined with their substantial tax savings, helped to ensure a positive and ongoing relationship, which is vital with returning clients.

Outcome

The corporation was successfully able to change from a C-Corp to an S-Corp, and the shareholder's salaries were reduced. This helped them to make considerable tax savings and continues to justify their ongoing use of Oelerich, Reiling & Miller as their tax preparers. Mr. Oelerich was pleased with the value of RCReports, saying, "Our fee to perform this analysis was a bargain for the taxpayer...in this case, the return on the client's investment is over 20 times. Our firm has had other similar cases in lowering salaries, which enabled the shareholders to significantly lower their income and payroll tax liability."

About RCReports Reasonable Compensation Solutions

RCReports provides instant and accurate insights into Reasonable Compensation for closely held businesses to ensure your clients remain compliant, minimize risk and realize maximum payroll tax savings. With in-built industry, legal, IRS criteria and salary data intelligence, tax advisors, valuers and forensic accountants gain access to credible and independent Reasonable Compensation calculations with guaranteed cover in the event of an IRS audit or litigation. Access reports for planning, compliance or normalization within minutes through an intuitive, cloud-based platform, removing all guesswork and providing full documentation and transparency around your clients' compensation