Navigating Income Taxes for ACH

Introduction

Welcome to the presentation on Navigating Income Taxes for ACH. This presentation aims to provide an overview of compliance and savings strategies. We will cover some basics of income tax compliance and explore ways to maximize savings. Let's get started!

Topics of Discussion

The two big elephants in the ACH space for us to address today are:

1. S-Corps: When and why
2. Non-Taxable Income in OR

But we will also go over:

3. Commonly Missed Deductions
4. Lots of questions

What's the deal with S-corp?

If your home is private (or you have very little income from state residents), you may benefit from converting to S-Corp:

1. An S-Corp can own property such as buildings and cars, this allows 100% deduction of those.

2. An S-Corp files its own tax return and the profit is then reported on the owner’s personal income taxes where the profit (but not salary) is exempt from self-employment taxes (unlike Sch. C returns).

S-Corp: Distributions

Self-Employment:

Net Profit: $100,000

Income Taxes are the same (Fed + OR).

SE Tax (15.3%) = $15,300

S-Corp:

Net Profit: $100,000

Income Taxes are the same (Fed + OR).

Salary: $50,000

SE Tax: $7,650

Distributions: $50,000

No SE Tax Paid!

So when can I switch?

Some of you: “This sounds great! But when is a good time to switch?”

Our general rule of thumb is that around $60,000 net at the end of the year is a good time to look into switching over to S-corp.

This can vary by your filing situation, family size, etc.

But should I switch?

Others of you: “This sounds to good to be true, what's the catch?”

1. Yearly tax filing costs for S-Corp.
2. Payroll for owners. Should already be in place for employees.
3. Non-taxable income deduction NOT-ALLOWED

Non-Taxable Income Qualifications

1. Licensee must live in the care home and treat it as their primary residence.

2. The residents must come from the state.

3. Only one home qualifies as nontaxable, even if the licensee has other homes with state residents.

4. The qualifying home may only have a maximum of 5 residents (including private residents) in the home.

OR Dept. of Revenue Audits

Many of you who have state residents likely know someone, or have recently had to deal with an OR audit yourself.

What are these all about?

"Micorescu v. Commissioner 1998”

1. Likely a revenue initiative
2. The state argued that PACE residents weren’t “placed by” the state, and amazingly won.
3. We suspect someone else ended up in court in 2014, when we got “Internal Revenue Bulletin: 2014-7” where the IRS defined “placed” in reference to the Micorescu case.
4. Come 2022-2023, OR starts auditing ACH’s to remove their Sec. 131 Nontaxable adjustment.

The good news. We won!

After much back-and-forth with ODR, DHS, and Providence/ElderPlace, and lots of law-searching:

We were able to put together an argument based on Oregon law in favor of resident qualification under Sec. 131.

We are very confident in our argument, and have successfully used it for several customers this summer.

They should not be taking away your Sec. 131 benefits!

The bad news. OR decides.

It does not seem like ODR wants to back down, at least not just yet.

And until there's a court case to finally settle it, this could affect just about anybody.

So, please be aware, and pass it on to anyone else you know that these audits are happening, but they shouldn't be going after your entire Sec. 131 adjustment.

Thanks!

Do you have any questions?

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