



51A Middle Street Newburyport MA 01950
Phone: 800-588-7039 Fax: 877-902-4284
contact@bhfe.com www.bhfe.com

Course Information

Course Title: *Tax Guide to Compensation and Benefits #490416*

Recommended CPE credit hours for this course

In accordance with the standards of the CFP Board, the National Registry of CPE Sponsors and the IRS, CPE credits have been granted based on a 50-minute hour.

CFP® 2 (All states) CFP Board Course ID# 195445

CFP Board sponsor number: 1008.

CPA 3 (All states)

National Registry of CPE Sponsors ID Number: 107615.

Sponsor numbers for states requiring sponsor registration:

Florida Division of Certified Public Accountancy: 4761 (Ethics #11467)

Hawaii Board of Public Accountancy: 14003

New York State Board of Accountancy: 002146

Ohio State Board of Accountancy: M0021

Texas State Board of Accountancy: 009349

EA/OTRP 3 (All States) IRS: Qualified Sponsor number: *FWKKO*.

IRS Course Number: FWKKO-T-00015-13-S

CLU, ChFC/PACE Recertification 3

Course Description

This mini-course examines the various ideas, methods, and techniques capable of optimizing the overall compensation package for key employees and principals in small to medium sized businesses. Qualified and non-qualified deferred compensation, benefit targeting, insurance programs, statutory fringe benefits, interest free loans, and investment planning are investigated. Consideration is given to indirect compensation in the form of business entertainment, expense accounts, auto use, travel, and transportation. The new field of professional services is probed to provide tax, financial and estate planning to the key executive.

Program Delivery Method: Self-Study (NASBA QAS Self-Study/interactive)

Subject Codes/Field of Study

NASBA (CPA), CFP Board of Standards, Inc.: Taxes.

IRS (EA, OTRP): Federal Tax Law.

NAPFA: Taxes

Course Level, Prerequisites, and Advance Preparation Requirements

Program Level: CFP Board: Intermediate; NASBA/CPA, IRS: Overview.

This program is appropriate for professionals at all organizational levels.

Prerequisites: Basic familiarity with federal taxation

Advance Preparation: None

Course Content

Publication/Revision Date: 2/7/2016.

Author: Danny Santucci, J.D.

Final exam (online): Twenty questions (multiple-choice).

Instructions for taking this course

You must complete this course within one year of the date of purchase (if you do not complete the course within one year, contact us to determine whether an updated edition of the course is available, in which case we will provide you with a PDF of the updated course and the online exam at no charge).

A passing grade of at least 70% is required on the final exam for this course. You may retake the exam if you do not pass it on the first attempt (no charge).

Complete the course by following the learning objectives listed on the following page, studying the text, and studying the review questions at the end of each major section (or at the end of the course). Once you have completed studying the course and you are confident that the learning objectives have been met, answer the final exam questions (online).

Instructions for Taking the Final Exam Online

- Login to your account online at www.bhfe.com.
- Go to "My Account" and view your course.
- Select "Take Exam" for this course and follow instructions.

Additional Information

- The exam may be started, stopped, then resumed at a later date.
- The exam is "open book," it is not timed, and it may be retaken if not passed on the first attempt (no charge).
- Results (correct, incorrect answers) and certificate appear immediately upon passing the exam.
- CFP® and EA credits are reported weekly.

Have a question? Call us at 800-588-7039 or email us at contact@bhfe.com.

Learning Assignment & Objectives

As a result of studying the assigned materials, you should be able to meet the objectives listed below.

ASSIGNMENT SUBJECT

At the start of the materials, participants should identify the following topics for study:

- * Deferral of income
- * Avoiding taxable income
- * Unreasonable compensation
- * Nonqualified deferred compensation
- * Basic types of corporate retirement plans
- * Individual plans
- * Fringe benefits
- * Employer provided automobile
- * Business entertainment
- * Business travel & transportation

Learning Objectives

After reading the materials, participants will be able to:

1. Identify types of income, from a financial and tax perspective, to be budgeted into cash so that income-producing assets can be acquired and managed for an effective investment plan.
2. Determine compensation to maximize the net dollar return using strategies that involve all aspects of how the client relates to the company for which they may be an owner, employee, or both.
3. Specify the differences between qualified deferred compensation plans and nonqualified deferred compensation plans, and recognize defined contribution plans from defined benefit plans noting the characteristics of each so that business owners may choose the most suitable plan to accomplish their financial and worker incentive objectives.
4. Recognize the scope and variety of excluded fringe benefits including tax treatment, operational details, and level of incentive based compensation.
5. Identify the directly related test and the associated test to insure that entertainment expenses can be deducted, determine the tax treatment of reimbursements paid under accountable and unaccountable plans, and recognize deductible travel expenses undertaken for business.
6. Specify types of insurance that a company can provide its employees, denies the various types of equity participation available from which companies may choose, and identify the basic types of buy sell agreements.

After studying the materials, answer the exam questions 1 to 20.

Notice

This course and test have been adapted from materials and information contained in the above text and any supplemental material provided. This course is sold with the understanding that the publisher is not engaged in rendering legal, accounting, or other professional advice and assumes no liability whatsoever in connection with its use. Since laws are constantly changing, and are subject to differing interpretations, we urge you to do additional research and consult appropriate experts before relying on the information contained in this course to render professional advice.

Tax Guide to Compensation and Benefits

By
Danny C. Santucci



The author is not engaged by this text, any accompanying electronic media, or lecture in the rendering of legal, tax, accounting, or similar professional services. While the legal, tax, and accounting issues discussed in this material have been reviewed with sources believed to be reliable, concepts discussed can be affected by changes in the law or in the interpretation of such laws since this text was printed. For that reason the accuracy and completeness of this information and the opinions based thereon cannot be guaranteed. In addition, state or local tax laws and procedural rules may have a material impact on the general discussion. As a result, the strategies suggested may not be suitable for every individual. Before taking any action, all references and citations should be checked and updated accordingly.

This publication is designed to provide accurate and authoritative information in regard to the subject matter covered. It is sold with the understanding that the publisher is not engaged in rendering legal, accounting, or other professional service. If legal advice or other expert advice is required, the services of a competent professional person should be sought.

—From a Declaration of Principles jointly adopted by a committee of the American Bar Association and a Committee of Publishers and Associations.

**Copyright January, 2016
Danny Santucci**

Table of Contents

Course Information	ii
Learning Assignment & Objectives	iv
Table of Contents	i
Financial & Tax Fundamentals	1
Income	1
Compensation Strategies	1
Income Tax Rates	2
Capital Gains & Dividends - §1(h).....	2
Tax on Net Investment Income - §1411	3
Deferral of Income	4
Equivalent to an “Interest-free” Loan	4
Tax Savings v. Loss of Buying Power.....	4
Protecting Deferred Amounts	4
Tax Deferral Is Not Elimination	4
Acceleration of Deductions	5
Time Value of Deductions.....	5
Avoiding Taxable Income	5
Excluded Statutory Fringe Benefits.....	5
Foreign Earned Income - §911	5
Housing Exclusion - §119	6
Ministers - §107.....	6
Worker’s Compensation - §104(a)(1).....	6
Personal Injury - §104(a)(2)	6
Unreasonable Compensation	6
Scope of Examination.....	7
Factors	7
Nonqualified Deferred Compensation	8
Contractual Arrangement	8
Tax Status	8
Unfunded Bare Contractual Promise Plan - Type I.....	8
Funded Company Account Plan - Type II.....	9
Segregated Asset Plan - Type III.....	9
Qualified Deferred Compensation - Retirement Plans	11
Basic Types of Corporate Plans	11
Defined Benefit	12
Defined Contribution	12
Self-Employed Plans - Keogh	14
25% Versus 20%	14
Individual Plans	15
Individual Retirement Accounts	15
Employer-Sponsored IRA	15
Roth IRA - §408A	15
Simplified Employee Pension Plans (SEPs).....	17
Contribution Limits & Taxation	18
SIMPLE Plans	18
SIMPLE IRA Plan	18
SIMPLE §401(k) Plan	19

Fringe Benefits.....	20
General Valuation Rule	20
Fair Market Value.....	20
Special Valuation Rules.....	20
Withholding & Accounting	21
General Accounting Rule	22
Employee Achievement Awards - §74(c) & §274(j).....	23
Definition of Employee Achievement Awards.....	23
Qualified Plan Award	23
Group Term Life Insurance - §79.....	23
Group Requirements.....	24
Family Member Cost	25
Self-Insured Medical Reimbursement Plans - §105	25
Benefits.....	25
Reporting	26
Exposure	26
Medical Insurance - §106	26
Meals & Lodging - §119	26
Convenience of Employer	27
Cafeteria Plans - §125	27
Qualified Benefits.....	28
Employee Educational Assistance Programs - §127	29
Requirements.....	29
Educational Assistance	29
Dependent Care Assistance - §129.....	30
Requirements.....	30
55% Test.....	30
No-Additional-Cost Services - §132(b).....	31
Line of Business Requirement.....	31
Qualified Employee Discounts - §132(c)	31
Amount of Discount	32
Working Condition Fringes - §132(d).....	32
Additions to Exclusion	32
De Minimis (Minimal) Fringes - §132(e).....	32
Subsidized Eating Facilities.....	33
Qualified Transportation - §132(f)	33
Commuter Highway Vehicle	33
Transit Pass.....	33
Qualified Parking.....	34
Exclusion Limits.....	34
Employer Provided Automobile - §132 & §61	34
General Valuation Method	34
Special Method #1 - Lease Value	34
Special Method #2 - Cents per Mile	37
Special Method #3 - Commuting Value	38
Moving Expenses - §217	39
Physical Fitness Programs - §132(h)(5)	39
Adoption Assistance Program - §137.....	40
Employer-Provided Retirement Advice & Planning - §132.....	40
Financial Planning - §212 & §67.....	41
Popularity	41

Taxation.....	41
Tax Planning - §212 & §67.....	41
Taxation.....	41
Estate Planning - §212 & §67.....	42
Business Entertainment	42
Lavish or Extravagant Restriction.....	42
Ordinary & Necessary Requirement	43
Directly Related Test.....	43
Associated With Test.....	43
Percentage Reduction for Meals & Entertainment	43
2% Floor on Employee Business Expenses.....	44
Substantiation & Record keeping	44
Documentation	44
Employee Expense Reimbursement & Reporting	46
Accountable Plans	46
Business Travel & Transportation.....	47
Domestic Business Travel.....	47
Foreign Business Travel.....	47
Personal Pleasure.....	48
Primarily Business.....	48
Full Deduction	48
Insurance.....	48
Retired Lives Reserve	48
Split Dollar Life	49
Business Travel Accident Insurance	49
Medical & Dental Insurance.....	49
Equity Participation	49
Stock Sales or Unrestricted Stock Plan	49
Stock Plans	50
Stock Bonus.....	50
ESOT	50
Phantom Stock.....	50
Repurchase or Restricted Stock Agreement	51
Stock Options	51
Stock Appreciation Rights Plans	51
Qualified Incentive Stock Option.....	51
Buy Sell Agreements.....	52
Definition	52
Glossary	60
Index of Keywords & Phrases	61