

## W H I T E P A P E R

## Dynamic Income and Wealth Preservation Tax Planning Strategies To Recoup the Value of the “Lost” Property Tax Deductions and Maximize Qualified Business Income for Pass-Through Business Entities

The 2017 Tax Cuts and Jobs Act (“the “2017 Tax Act”) made significant changes to the Internal Revenue Code and its Regulations (the “IRC”) affecting, among other things, the taxation of individuals as well as businesses using pass-through entities (sole proprietorships, LLCs, Partnerships, and S-Corps).

With respect to individuals, an important and costly change is that a taxpayer may not deduct more than \$10,000 in total of state and local income and property taxes (collectively “SALT”) on his/her Form 1040 and its schedules.

And, for businesses using pass-through entities, there is a valuable deduction against income whereby a taxpayer may exclude up to twenty-percent (20%) of his/her qualified taxable net business income from taxation.

Many residents in Fairfield County, CT, Westchester and Long Island and New York City, NY, and New Jersey have combined property and state income taxes in excess of \$10,000, and as a result, are losing the benefit of deducting the amounts in excess of \$10,000 for tax years 2018 and later.

Dynamic Wealth Strategies, LLC can help its clients claim back the value of these deductions for this year, and every year afterward at least until January 1, 2026, and probably thereafter too!

- Do you own a residential home, and possibly a second home and/or a vacation home for your personal use?
- Have you paid \$20,000 or more of combined property and state income taxes (“SALT”)?
- Do you have approximately \$20,000 or more in taxable income from sources other than wages and salaries, such as (i) qualified business income from your sole proprietorship, LLC, partnership, or S-Corp? and/or (ii) investment income?

*(cont.)*

If you answered YES to all of these questions we can help you recover the benefit of the SALT deductions and save thousands of dollars annually on your income taxes. You will see concrete examples of how the savings are developed in the attachment to this White Paper.

We assist clients in developing prudent wealth preservation and business planning structures that are based on techniques that traditionally have been accepted under the applicable tax law and IRS regulations. For most taxpayers, the process involves these simple steps:

1. Evaluate SALT and business income in order to determine the client's personal financial and wealth preservation structure;
2. Calculate unused or "excess" SALT deductions;
3. Analyze the ability to transfer business and/or investment income to additional taxpayer entities;
4. Create unique additional taxpayer entities as needed, per 2 and 3 above.
5. Determine the level of Qualified Business Income and, as needed, align the characteristics of any additional taxpayer entities in order to maximize the overall tax savings.
6. We seize opportunities created under new IRC Code Section 199A, that allows business owners to legally "shelter" from taxation up to twenty percent (20%) of §199A-Qualified Business Income per taxpayer; to maximize this benefit, we will utilize traditional and IRS Sanctioned pass-through business entities, such as LLCs, including real property entities, and specially structured family trusts, to reorganize the legal ownership for tax purposes (but not changing familial control in any manner) to create multiple, separate taxpaying entities each of which will be able to exclude from taxation its own share of §199A- Qualified Business Income.
7. We design approaches for wealthier taxpayers involving the minimization of state income tax exposure on portfolio income (that is income from investments, including, interest, dividends, and capital gains) by utilizing specialized wealth preservation structures, including non-resident trusts established in favorable state jurisdictions that recognize and encourage the use of individual and family wealth management and protection strategies and have minimal or no income taxation.

Our ideal client base occupies a target market comprised of:

- (I) Homeowners of principal residences, second homes, and/or vacation homes having \$20,000 or more of SALT (in total form one or any of such residence combined) and non-salary/wage income (such as investment income or business income) in an amount at least equal to the amount of the disallowed SALT in order to take advantage of the deduction threshold for each new taxpayer trust; and
- (II) Owners of pass-through business entities (sole proprietorships, LLCs, partnerships, and S-Corps) who are subject to the "phase-out" and/or the wages and unadjusted basis limitations that prevent the full use the 20% deduction against taxable income from qualified pass-through entities ("QBI Deduction"); and

*(cont.)*

- (III) Taxpayers with retirement plans and IRA assets who are affected by the recently adopted “SECURE Act” which now imposes significant limitations on the ability to defer income taxes beyond the taxpayer’s generation. In particular, as regards a taxpayer’s prospective estate and family income tax planning, this restricts the length of time the beneficiaries of your retirement plans may leave funds inside the account sheltered from taxation. The provisions of the new “SECURE Act” require that those retirement funds must be drawn down and distributed much sooner and become subject to tax many years earlier than you originally planned.

Dynamic Wealth Strategies, LLC has assembled a core team of experienced lawyers and tax professionals that specializes in reducing their clients’ personal income tax liability, wealth preservation, and estate planning. The team is located at the Company’s main offices in New York City and Greenwich, Connecticut, and is focused on responding to the changes brought about by the 2017 Tax Act.

We have large Wall Street Firm experience, but operate with small town values, and deliver first class attentive client service, providing expert legal advice and sound business counsel under a reasonable, understandable, and cost-efficient fee structure.

#### Who We Are — Our Credentials

C. William Tanzi, Esq.

Estates, Trusts and Wealth Preservation Attorney specializing in strategies for affluent individuals and families with properties, businesses, and investments, who seek to preserve and grow their holdings through optimization of estates, trust, and asset preservation laws and the application of tax-efficient legal strategies and structures.

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Commercial Attorney with experience in counseling individuals and companies in the use of appropriate strategies, entities and structures for diverse purposes and financial goals; who brings to bear an understanding of the interplay among business, corporate, and tax laws affecting those legal strategies and structures.

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*(cont.)*

Please Read the Slides below — Open Financial Examples Demonstrating the Tax Savings that Implementation of our Strategies may Provide Depending on Your Own Personal Circumstances and Tax Situation:

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**Example 1: Portfolio Investment Client (MFJ)**

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**Assumptions:**

Family of four, two children (any age)	1. Form multi-member LLC and create two non-grantor trusts, one for each child.
One Family Residence in High Tax City	
Wage and Salary Income	\$275,000.00
Investment Income (interest/dividends)	\$50,000.00
Rental Real Property (Schedule E) -	\$25,000.00
SALT (Local Property Tax)	\$30,000.00
SALT (State Income Tax)	\$22,500.00
<i>Total SALT \$52,500.00</i>	
Charitable deduction	\$10,000.00

2. Transfer home to LLC and apportion membership interests among client and new taxpayer trusts in accordance with amount of property tax each is responsible for paying.

3. Allocate a portion of ownership of investment and/or business to each new taxpayer trust.

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**Example 1: Portfolio Investment Client (MFJ)**

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Tax Position Under Current Law with SALT Limitations

Wage and Salary Income		\$275,000.00
Investment Income		\$50,000.00
Rental Real Property (Schedule E) -		<u>\$25,000.00</u>
		\$350,000.00
Deductions (Standard deduction only)		<u>-\$24,000.00</u>
Taxable Income before QBI Deduction		\$326,000.00
Qualified Business Income Deduction (Sec. 199A)	Not applicable	<u>0.00</u>
<b>2018 Form 1040 Taxable Income</b>		<b><u>\$326,000.00</u></b>
<b>2018 Federal Income Tax</b>		<b>\$67,699.00</b>

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**Example 1: Portfolio Investment Client (MFJ)**

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Tax Position Under Current Law using Additional Taxpayers to utilize SALT/Charitable Deductions

	Original Taxpayer (MFJ)	Trust 1 for Child 1	Trust 2 for Child 2
Wage and Salary Income	\$275,000.00	\$0.00	\$0.00
Investment Income	<b>\$20,000.00</b>	<b>\$15,000.00</b>	<b>\$15,000.00</b>
Rental Real Property (Schedule E)	<u>\$25,000.00</u>		
	\$320,000.00	\$15,000.00	\$15,000.00
Standard Deduction	-\$24,000.00	N.A.	N.A.
Deductions (Real Property Tax/Charitable)	N.A.	<u>-\$15,000.00</u>	<u>-\$15,000.00</u>
Taxable Income before QBI Deduction	<u>\$296,000.00</u>	<u>\$0.00</u>	<u>\$0.00</u>
Qualified Business Income Deduction	Not applicable 0.00	\$0.00	\$0.00
2018 Form 1040 Taxable Income	<b><u>\$296,000.00</u></b>	<b>\$0.00</b>	<b>\$0.00</b>
Federal Income Tax	<b>\$59,619.00</b>	<b>\$0.00</b>	<b>\$0.00</b>
Total Tax All Entities	<b>\$59,619.00</b>		

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**Example 1: Portfolio Investment Client (MFJ)**

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**Estimated Annual Federal Income Tax Savings Implementing Strategy\***

(\$67,699 - \$59,617)	<b>\$8,080.00</b>
<b>Gross Savings for 2019 through 2026</b> ((\$8,080 per year times 7years)	<b>\$56,560.00</b>
Estimated One-Time Cost to Implement**	<b><u>-\$10,000.00</u></b>
<b><u>Net Savings for 2019 through 2026</u></b>	<b><u>\$46,560.00</u></b>

\* Excess trust income will be taxable to trust (or beneficiaries) at applicable tax rates.  
 \*\*Exclusive of annual administration costs (trustee fees, tax returns, etc.).

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**Example 2: Rental Real Property Client – S-Corp to LLC (MFJ)**

Assumptions:

Family of four, two children (any age)  
One Family Residence in High Tax City

Wage and Salary Income	\$200,000.00
Investment Income	\$40,000.00
Actively Managed Rental Real Property (S-Corp) – (net of wages and expenses)	\$250,000.00
SALT (Local Property Tax)	\$30,000.00
SALT (State Income Tax)	\$25,000.00
<i>Total SALT \$55,000.00</i>	
Charitable deduction	\$10,000.00

1. Form multi-member LLC and create three non-grantor trusts\*, one for spouse and one for each child.
2. Transfer home to LLC and apportion membership interests among client and new taxpayer trusts in accordance with amount of property tax each is responsible for paying.
3. Convert from S-Corp to LLC/Partnership
4. Allocate a portion of ownership of investment and/or business to each new taxpayer trust.

\*Consistent with IRS final Regulations

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**Example 2: Rental Real Property Client – S-Corp to LLC (MFJ)**

Tax Position Under Current Law with SALT Limitations

Wage and Salary Income	\$200,000.00
Investment Income	\$40,000.00
Actively Managed Rental Real Property (S-Corp) *	<u>\$250,000.00</u>
<i>*(net of wages and expenses)</i>	\$490,000.00
Deductions (Standard deduction only)	<u>-\$24,000.00</u>
Taxable Income before QBI Deduction	\$466,000.00
Qualified Business Income Deduction (Sec. 199A)	<u>-\$50,000.00</u>
2018 Form 1040 Taxable Income	<u>\$416,000.00</u>
2018 Federal Income Tax (+ Payroll Tax)	\$118,700.00

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**Example 2: Rental Real Property Client – S-Corp to LLC (MFJ)**

Tax Position Under Current Law using Additional Taxpayers to utilize SALT/Charitable Deductions

	<u>Original Taxpayer (MFJ)</u>	<u>Trust 1 for Spouse</u>	<u>Trust 2 for Child 1</u>	<u>Trust 3 for Child 2</u>
Wage and Salary Income	\$0.00	\$0.00	\$0.00	\$0.00
Investment Income	<b>\$0.00</b>	<b>\$10,000.00</b>	<b>\$15,000.00</b>	<b>\$15,000.00</b>
Actively Managed Rental Real Property (LLC)*	<u>\$450,000.00</u>			
	\$450,000.00	\$10,000.00	\$15,000.00	\$15,000.00
Adjustments to income (½ SE Tax)	-\$13,987.00	N.A.	N.A.	N.A.
Standard Deduction	-\$24,000.00	N.A.	N.A.	N.A.
Deductions (Real Property/Charitable)	<u>N.A.</u>	<u>-\$10,000.00</u>	<u>-\$15,000.00</u>	<u>-\$15,000.00</u>
Taxable Income before QBI Deduction	<u>\$412,013.00</u>	<u>\$0.00</u>	<u>\$0.00</u>	<u>\$0.00</u>
Qualified Business Income Deduction	-\$82,403.00	0.00	\$0.00	\$0.00
2018 Form 1040 Taxable Income	<b>\$329,611.00</b>	<b>\$0.00</b>	<b>\$0.00</b>	<b>\$0.00</b>
Federal Income Tax (plus SE Tax)	<b>\$96,827.00</b>	<b>\$0.00</b>	<b>\$0.00</b>	<b>\$0.00</b>
Total Tax All Entities	<b>\$96,827.00</b>			

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**Example 2: Rental Real Property Client – S-Corp to LLC (MFJ)**

Estimated Annual Federal Income Tax Savings Implementing Strategy\*

(\$118,799 – \$96,827) **\$21,873.00**

Gross Savings for 2019 through 2026 **\$153,111.00**

(\$21,873 per year times 7 years)

Estimated One-Time Cost to Implement\*\* -\$22,500.00

**Net Savings for 2019 through 2026** **\$130,611.00**

\* Excess trust income will be taxable to trust (or beneficiaries) at applicable tax rates.

\*\*Exclusive of annual administration costs (trustee fees, tax returns, etc.).

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**Example 3: Rental Real Property Client – S-Corp (MFJ)**

Assumptions:

Family of four, two children (any age)  
One Family Residence in High Tax City

Wage and Salary Income	\$200,000.00
Investment Income	\$80,000.00
Actively Managed Rental Real Property (S-Corp) – (net of wages and expenses)	\$400,000.00
SALT (Local Property Tax)	\$52,000.00
SALT (State Income Tax)	\$43,800.00
<i>Total SALT \$95,800.00</i>	
Charitable deduction	\$25,000.00

1. Form multi-member LLC and create three non-grantor trusts\*, one for spouse and one for each child.
2. Transfer home to LLC and apportion membership interests among client and new taxpayer trusts in accordance with amount of property tax each is responsible for paying.
3. Reduce W-2 income (discretionary).
4. Allocate a portion of ownership of investment and/or business to each new taxpayer trust.

\*Consistent with IRS final Regulations

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**Example 3: Rental Real Property Client – S-Corp (MFJ)**

Tax Position Under Current Law with SALT Limitations

Wage and Salary Income	\$200,000.00
Investment Income	\$80,000.00
Actively Managed Rental Real Property (S-Corp) - (Net of wages and expenses)	<u>\$400,000.00</u>
	\$680,000.00
Deductions (Schedule A)	<u>-\$35,000.00</u>
Taxable Income before QBI Deduction	\$645,000.00
Qualified Business Income Deduction (Sec. 199A)	<u>-\$80,000.00</u>
2018 Form 1040 Taxable Income	<u>\$565,000.00</u>
2018 Federal Income Tax (including Payroll Tax)	\$170,850.00

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**Example 3: Rental Real Property Client – S-Corp (MFJ)**

Tax Position Under Current Law using Additional  
 Taxpayers to utilize SALT/Section 199A Deductions

	<u>Original Taxpayer (MFJ)</u>	<u>Trust 1 for Spouse</u>	<u>Trust 2 for Child 1</u>	<u>Trust 3 for Child 2</u>
Wage and Salary Income	\$100,000.00	\$0.00	\$0.00	\$0.00
Investment Income	\$80,000.00	\$0.00	\$0.00	\$0.00
Actively Managed Real Property - (S-Corp)	<b><u>\$350,000.00</u></b>	<b><u>\$50,000.00</u></b>	<b><u>\$50,000.00</u></b>	<b><u>\$50,000.00</u></b>
	\$530,000.00	\$50,000.00	\$50,000.00	\$50,000.00
Deductions (Schedule A)	-\$35,000.00	N.A.	N.A.	N.A.
Real Property Tax Deduction	N.A.	<u>-\$10,000.00</u>	<u>-\$10,000.00</u>	<u>-\$10,000.00</u>
Taxable Income before QBI Deduction	<u>\$495,000.00</u>	<u>\$40,000.00</u>	<u>\$40,000.00</u>	<u>\$40,000.00</u>
Qualified Business Income Deduction	-\$70,000.00	-\$8,000.00	-\$8,000.00	-\$8,000.00
<b>2018 Form 1040/1041 Taxable Income</b>	<b><u>\$425,000.00</u></b>	<b><u>\$32,000.00</u></b>	<b><u>\$32,000.00</u></b>	<b><u>\$32,000.00</u></b>
<b>Federal Income Tax (including Payroll Tax)</b>	<b>\$115,429.00</b>	<b>\$10,226.00</b>	<b>\$10,226.00</b>	<b>\$10,226.00</b>
<b>Total Tax All Entities</b>	<b>\$146,107.00</b>			

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**Example 3: Rental Real Property Client – S-Corp (MFJ)**

**Estimated Annual Federal Income Tax  
 Savings Implementing Strategy\***

(\$170,850 - \$146,107) \$24,743.00

**Gross Savings for 2019 through 2026** **\$173,201.00**

(\$24,743 per year times seven years)

Estimated One-Time Cost to Implement\*\* -\$25,000.00

**Net Savings for 2019 through 2026** **\$148,201.00**

\* Excess trust income will be taxable to trust (or beneficiaries) at applicable tax rates.

\*\*Exclusive of annual administration costs (trustee fees, tax returns, etc.).

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**Who We Are . . . .**

Experienced tax, wealth preservation and business lawyers who provide expert legal advice, sound business counsel, and attentive client service.

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**Who we Are; Our Credentials**

**C. William Tanzi, ESQ.**

Estates, Trusts and Wealth Preservation Attorney specializing in strategies for affluent individuals and families with properties, businesses, and investments, who seek to preserve and grow their holdings through optimization of estates, trust, and asset preservation laws and the application of tax-efficient legal strategies and structures.

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Commercial Attorney with experience in counseling individuals and companies in the use of appropriate strategies, entities and structures for diverse purposes and financial goals; who brings to bear an understanding of the interplay among business, corporate, and tax laws affecting those legal strategies and structures.

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