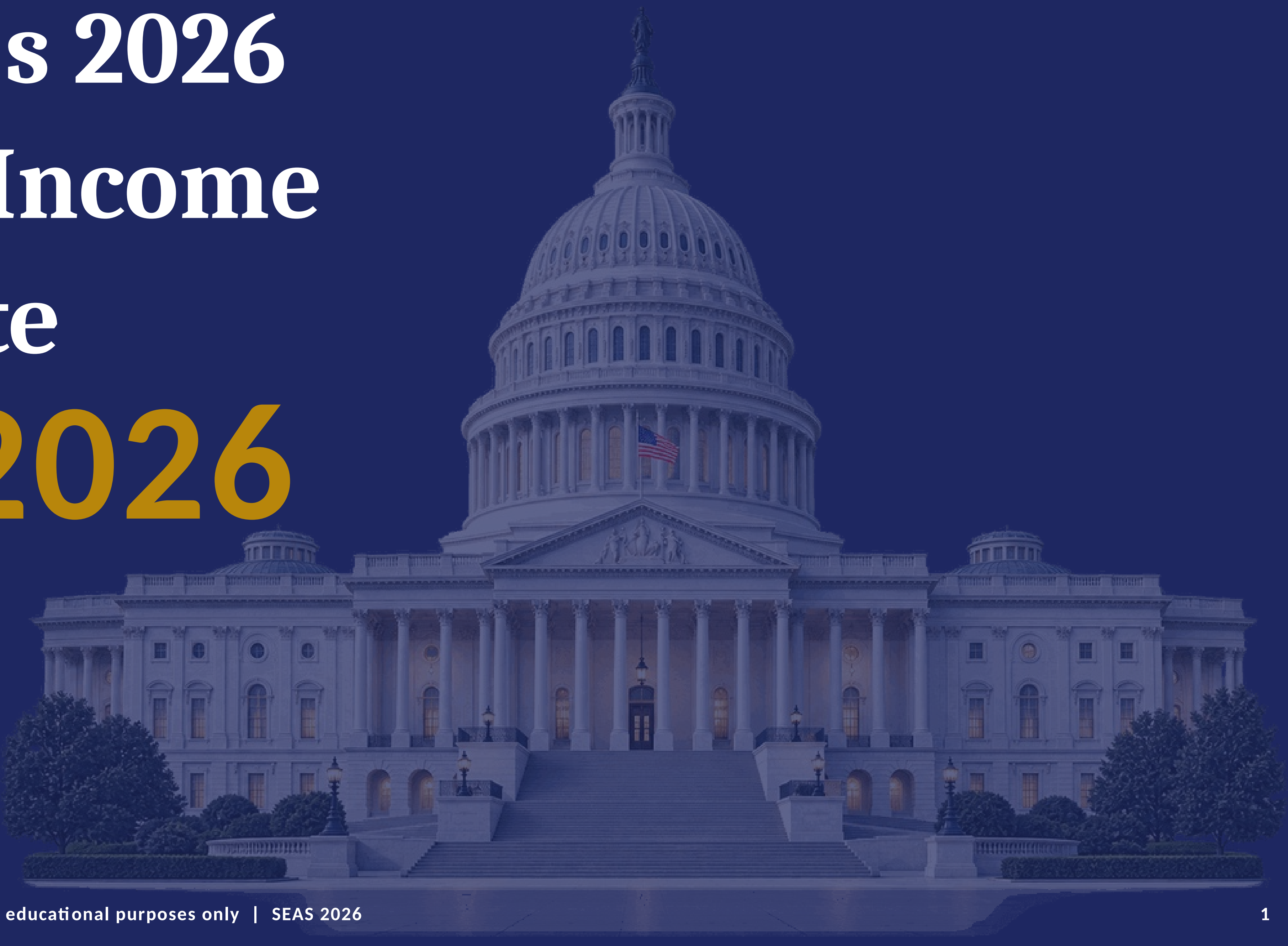
JJ the CPA's 2026 Business Income Tax Update

SEAS 2026



YOUR EDUCATOR

Joshua Jenson, CPA — “JJ the CPA”

JJ is a third-generation CPA and the founder of a tax practice with more than 30 years of managing his own CPA firm. He has completed 34 tax seasons and is licensed in Oklahoma and Texas. He is enjoying succession with his son, Cooper Jenson.

Beyond the tax practice, JJ is a national CPE educator and speaker, a five-time author, and the voice behind the JJ the CPA YouTube channel — over 100,000 subscribers and 8 million views — where he teaches CPAs and tax professionals nationwide. He's been recognized by the U.S. Chamber of Commerce as one of the “Top 10 Small Business Experts to Follow on Social Media.”

- **AMERICAN INSTITUTE OF CPAs & OKLAHOMA SOCIETY OF CPAs MEMBER**
- **LICENSED IN OKLAHOMA & TEXAS**
- **ABILENE CHRISTIAN UNIVERSITY – BBA in ACCOUNTING**
- **NAMED DISTINGUISHED CPA OF THE YEAR BY HIS OKLAHOMA PEERS**
- **MEMBER OF OSCPA TAXATION COMMITTEE AND SMALL FIRM PRACTITIONERS**

EDUCATIONAL AND INFORMATIONAL PURPOSES ONLY. NOT ADVICE.

Important Disclosures

Information available as of 8/18/26
Presented 8/26/26

I am a CPA, but unless we've signed a written engagement letter and you've paid — and I've accepted — a fee for those specific services, I am not your CPA, and this presentation does not create a professional relationship.

This presentation reflects the information available as of the date written above. Laws, forms, instructions, publications, etc. can change at any time — including before or shortly after this seminar. I will not inform you of any updates to information after this presentation.

This is independent educational content, not official guidance from the IRS, AICPA, or any governmental agency. Examples and case studies are illustrative only and may not reflect you or your client's specific facts. The calculations may be simplified in some examples and may not take every factor into account in the calculation result. I make no warranty as to completeness or accuracy, and reliance on anything here is at your own discretion.

Nothing here may be relied on for penalty protection. Please confirm anything you plan to act on with your own qualified adviser first, including but not limited to tax advisers, attorneys, etc.

This reference document contains links to third-party sources, current as of August 25, 2026.

REFERENCE — NOT PRESENTED LIVE

Appendix: Sources

Every source below is Georgia or federal primary authority, grouped by category, with a live link and the visible URL. Firm alerts and trade press were used to find these and are not listed.

AUTHORITY: every source below is usable and citable directly.

Links are to third-party sources · current as of August 25, 2026

Georgia Regulations

AUTHORITY

[Rule 560-7-3-.03, Election to Pay Tax at the PTE Level]

Eligibility, base, estimates, owner subtraction

https://rules.sos.ga.gov/gac/560-7-3-.03

AUTHORITY

[Rule 560-7-8-.34, Nonresident Member Withholding]

The 4% rate and the composite alternative

https://rules.sos.ga.gov/gac/560-7-8-.34

AUTHORITY

[Chapter 560-7, Income Tax Division regulations]

Chapter index: returns, collections, penalties

https://rules.sos.ga.gov/gac/560-7

Enacted Georgia Legislation

AUTHORITY

[HB 463 (2026) - Georgia Economic Growth and Tax Relief Act]

Cut the rate to 4.99% for 2026; signed May 11, 2026

https://gov.georgia.gov/document/2026-signed-legislation/hb-463/download

AUTHORITY

[HB 111 (2025) - rate reduction to 5.19%]

The 2025 rate and the original trigger structure

https://gov.georgia.gov/document/2025-signed-legislation/hb-111/download

AUTHORITY

[2026 Signed Legislation index, Office of the Governor]

Where enacted Georgia acts are published as signed

https://gov.georgia.gov/executive-action/legislation/signed-legislation/2026

Georgia Department of Revenue Guidance

AUTHORITY

[HB 149 Pass-Through Entity Tax FAQ]

Election mechanics, estimates, composite returns

https://dor.georgia.gov/hb-149-pass-through-entity-tax-faq

AUTHORITY

[Income Tax Federal Tax Changes]

Conformity and decoupling: 168(k) and 163(j)

https://dor.georgia.gov/taxes/tax-rules-and-policies/income-tax-federal-tax-changes

AUTHORITY

[Taxes for Partnerships]

Filing rules and the entity-level election

https://dor.georgia.gov/taxes/taxes-partnerships

Georgia Forms and Instructions

AUTHORITY

[**Georgia Form 700, Partnership Tax Return**](https://apps.dor.ga.gov/FillableForms/webpdf/examples/2025GA700.pdf)

The election box, Schedules 1, 2, 3, 7, 9 and 11

https://apps.dor.ga.gov/FillableForms/webpdf/examples/2025GA700.pdf

AUTHORITY

IT-611 Corporate Income Tax Instruction Booklet

Estimate dates, 5% penalty, 9% UET charge

https://dor.georgia.gov/document/document/2025-it611-corporate-income-tax-instruction-booklet/download

AUTHORITY

Form 602 ES, Corporate and Partnership Estimated Tax

The estimate form an electing entity must use

https://dor.georgia.gov/602-es-corporate-and-partnership-estimated-tax

Georgia Forms and Instructions (cont.)

AUTHORITY

[Form IT-CR, Georgia Nonresident Composite Tax Return](https://dor.georgia.gov/document/document/2025-itcr-ga-nonresident-composite-tax-return/download)

Not available in an electing year

https://dor.georgia.gov/document/document/2025-itcr-ga-nonresident-composite-tax-return/download

AUTHORITY

[All Georgia Tax Forms](https://dor.georgia.gov/taxes/all-tax-forms)

Form 600S, 600 UET, IT-552, IT-AFF3, NRW-Exemption

https://dor.georgia.gov/taxes/all-tax-forms

AUTHORITY

[Georgia Tax Rules and Policies](https://dor.georgia.gov/taxes/tax-rules-and-policies)

Where regulations and bulletins are posted

https://dor.georgia.gov/taxes/tax-rules-and-policies

Federal Authority

AUTHORITY

[IRS Tax Reform Guidance: Notices, including Notice 2020-75]

The notice that makes every state PTE regime work

https://www.irs.gov/newsroom/tax-reform-guidance-notices

AUTHORITY

[IRS: 2026 inflation adjustments, Rev. Proc. 2025-32]

2026 standard deduction and rate schedule

https://www.irs.gov/newsroom/irs-releases-tax-inflation-adjustments-for-tax-year-2026-including-amendments-from-the-one-big-beautiful-bill

AUTHORITY

[Internal Revenue Bulletin index]

Where the notice and rev. proc. are published

https://www.irs.gov/irb/2025-32_IRB

REFERENCE — NOT PRESENTED LIVE

Appendix: Sources for the SALT Module

Every source below is a primary or official source you can cite in your own file. Grouped by category. Links are live.

AUTHORITY: every source below is usable and citable directly.

Links are to third-party sources · current as of August 25, 2026

Statute and Enacted Law

AUTHORITY

[26 U.S.C. §164 — Taxes, as amended by OBBBA §70120]

§164(b)(6) and (b)(7) plus amendment notes.
https://uscode.house.gov/view.xhtml?req=granuleid:USC-prelim-title26-section164&num=0&edition=prelim

AUTHORITY

26 U.S.C. §68 — Overall limitation on itemized deductions

The 2/37 reduction and §68(b) ordering.
https://www.law.cornell.edu/uscode/text/26/68

AUTHORITY

Public Law 119-21 — full enacted text

§§70120, 70111 and 70107 as enacted.
https://www.congress.gov/bill/119th-congress/house-bill/1/text

IRS Forms and Instructions

AUTHORITY

[2025 Instructions for Schedule A (Form 1040)](https://www.irs.gov/instructions/i1040sca)

Line 5e and the SALT worksheet.
https://www.irs.gov/instructions/i1040sca

AUTHORITY

[2025 Instructions for Schedule A — PDF](https://www.irs.gov/pub/irs-pdf/i1040sca.pdf)

Print version, with sales tax tables.
https://www.irs.gov/pub/irs-pdf/i1040sca.pdf

AUTHORITY

[2025 Instructions for Form 1040 and 1040-SR](https://www.irs.gov/instructions/i1040gi)

What's New: SALT limit and Schedule 1-A.
https://www.irs.gov/instructions/i1040gi

IRS Guidance and Inflation Figures

AUTHORITY

[Rev. Proc. 2025-32 — 2026 inflation adjustments](https://www.irs.gov/pub/irs-drop/rp-25-32.pdf)

2026 brackets and AMT exemptions.

https://www.irs.gov/pub/irs-drop/rp-25-32.pdf

AUTHORITY

IRS: tax inflation adjustments for tax year 2026

News-release form, with the §68 note.

https://www.irs.gov/newsroom/irs-releases-tax-inflation-adjustments-for-tax-year-2026-including-amendments-from-the-one-big-beautiful-bill

AUTHORITY

IRS OBBBA hub — Working Families Tax Cuts

No SALT entry as of August 2026.

https://www.irs.gov/newsroom/working-families-tax-cuts

Allocation, PTET and Oklahoma

AUTHORITY

[IRS PMTA 2019-01 — allocating SALT to business use](https://www.eitc.irs.gov/pub/lanoa/pmta-2019-01.pdf)

Home-office split. Non-precedential.
https://www.eitc.irs.gov/pub/lanoa/pmta-2019-01.pdf

AUTHORITY

[Oklahoma Form 586 — Pass-Through Entity Election](https://oklahoma.gov/content/dam/ok/en/tax/documents/forms/businesses/corporate-income-tax/current/586.pdf)

Oklahoma PTE election form.
https://oklahoma.gov/content/dam/ok/en/tax/documents/forms/businesses/corporate-income-tax/current/586.pdf

AUTHORITY

[Oklahoma Form 514 packet — partnership return](https://oklahoma.gov/content/dam/ok/en/tax/documents/forms/businesses/corporate-income-tax/current/514-Pkt.pdf)

Electing PTE rules; 4.75% member rate.
https://oklahoma.gov/content/dam/ok/en/tax/documents/forms/businesses/corporate-income-tax/current/514-Pkt.pdf

Appendix: Source Reference

Primary authority for every position taken in this module. Reference only — not presented live.

AUTHORITY: every source below is usable and citable directly.

Links are to third-party sources · current as of August 25, 2026

Statute · Internal Revenue Code

AUTHORITY

IRC §168 — Accelerated Cost Recovery System

Current through Aug. 2026

https://uscode.house.gov/view.xhtml?req=granuleid%3AUSC-prelim-title26-section168&num=0&edition=prelim

AUTHORITY

IRC §179 — Election to Expense

Qualified real property is §179(e)

https://uscode.house.gov/view.xhtml?req=granuleid%3AUSC-prelim-title26-section179&num=0&edition=prelim

Treasury Regulations

AUTHORITY

[Reg. §1.168(k)-2 — Bonus Depreciation]

Operative framework; no OBBBA final regs
https://www.ecfr.gov/current/title-26/chapter-I/subchapter-A/part-1/subject-group-ECFRc4930337f38ecfd/section-1.168(k)-2

AUTHORITY

[Reg. §1.179-2 — §179 Limitations]

Taxable income limit, pass-through rules
https://www.law.cornell.edu/cfr/text/26/1.179-2

IRS Guidance

AUTHORITY

Notice 2026-11 — §168(k) Interim Guidance

Jan. 14, 2026; reliance must be in entirety
https://www.irs.gov/pub/irs-drop/n-26-11.pdf

AUTHORITY

Rev. Proc. 2025-32 — 2026 Inflation Amounts

§4.24: §179 limits for 2026
https://www.irs.gov/pub/irs-drop/rp-25-32.pdf

Forms and State

AUTHORITY

Instructions for Form 4562

Elections and line 11 income definitions
https://www.irs.gov/instructions/i4562

AUTHORITY

Georgia DOR — Federal Tax Changes

Decoupling list and 4562 mechanics
https://dor.georgia.gov/taxes/tax-rules-and-policies/income-tax-federal-tax-changes

REFERENCE — NOT PRESENTED LIVE

Appendix: Source Reference
No Tax on Overtime

Reference material for attendees, covering both the individual deduction and the employer's reporting duty. Every item was traced to its primary source.

AUTHORITY: every source below is usable and citable directly.

Links are to third-party sources · current as of August 25, 2026

Statute and Legislative Source

AUTHORITY

IRC §225 — Qualified overtime compensation

https://uscode.house.gov/view.xhtml?req=granuleid:USC-prelim-title26-section225&num=0&edition=prelim

AUTHORITY

P.L. 119-21 (H.R. 1) — §70202 enacts §225

https://www.congress.gov/bill/119th-congress/house-bill/1/text

AUTHORITY

29 USC §207 — FLSA overtime requirement

https://www.dol.gov/agencies/whd/overtime/laws

FLSA Regulations — Regular Rate

AUTHORITY

[29 CFR Part 778 — Overtime compensation under the FLSA]

https://www.ecfr.gov/current/title-29/subtitle-B/chapter-V/subchapter-B/part-778

AUTHORITY

[29 CFR 778.208 — Inclusion and exclusion of bonuses]

https://www.law.cornell.edu/cfr/text/29/778.208

AUTHORITY

[29 CFR 778.209 — Retroactive allocation of a bonus]

https://www.law.cornell.edu/cfr/text/29/778.209

FLSA Regulations — Recordkeeping

AUTHORITY

[29 CFR 778.303 — Retroactive pay increases](https://www.law.cornell.edu/cfr/text/29/778.303)

https://www.law.cornell.edu/cfr/text/29/778.303

AUTHORITY

[29 CFR Part 516 — Records to be kept by employers](https://www.ecfr.gov/current/title-29/subtitle-B/chapter-V/subchapter-A/part-516)

https://www.ecfr.gov/current/title-29/subtitle-B/chapter-V/subchapter-A/part-516

AUTHORITY

[29 CFR 516.6 — Records preserved two years](https://www.ecfr.gov/current/title-29/subtitle-B/chapter-V/subchapter-A/part-516/subpart-A/section-516.6)

https://www.ecfr.gov/current/title-29/subtitle-B/chapter-V/subchapter-A/part-516/subpart-A/section-516.6

IRS Notices

AUTHORITY

[Notice 2025-69 — 2025 computation methods and examples](https://www.irs.gov/pub/irs-drop/n-25-69.pdf)

https://www.irs.gov/pub/irs-drop/n-25-69.pdf

AUTHORITY

[Notice 2025-62 — §§6721 and 6722 penalty relief, 2025 only](https://www.irs.gov/pub/irs-drop/n-25-62.pdf)

https://www.irs.gov/pub/irs-drop/n-25-62.pdf

AUTHORITY

[Working Families Tax Cuts — notices index](https://www.irs.gov/newsroom/working-families-tax-cuts-notices)

https://www.irs.gov/newsroom/working-families-tax-cuts-notices

IRS Fact Sheets and FAQs

AUTHORITY

FS-2026-13 — current controlling FAQ set (Aug. 6, 2026)

https://www.irs.gov/pub/taxpros/fs-2026-13.pdf

AUTHORITY

FS-2026-01 — superseded; keep for the 2025 comparison

https://www.irs.gov/newsroom/questions-and-answers-about-the-new-deduction-for-qualified-overtime-compensation

AUTHORITY

FS-2026-04 — Schedule 1-A: what to know about the new form

https://www.irs.gov/newsroom/schedule-1-a-additional-deductions-what-to-know-about-the-new-form

IRS Fact Sheets and FAQs (cont.)

AUTHORITY

[FS-2025-03 — Tax deductions for working Americans and seniors](https://www.irs.gov/newsroom/working-families-tax-cuts-tax-deductions-for-working-americans-and-seniors)

https://www.irs.gov/newsroom/working-families-tax-cuts-tax-deductions-for-working-americans-and-seniors

AUTHORITY

[FS-2026-05 — What you will need to file](https://www.irs.gov/newsroom/what-you-will-need-to-file-your-taxes-under-working-families-tax-cuts)

https://www.irs.gov/newsroom/what-you-will-need-to-file-your-taxes-under-working-families-tax-cuts

AUTHORITY

[Taxpayer reliance on IRB guidance and on FAQs](https://www.irs.gov/newsroom/general-overview-of-taxpayer-reliance-on-guidance-published-in-the-internal-revenue-bulletin-and-faqs)

https://www.irs.gov/newsroom/general-overview-of-taxpayer-reliance-on-guidance-published-in-the-internal-revenue-bulletin-and-faqs

IRS News Releases

AUTHORITY

[IR-2026-88 — IRS updates FAQs on qualified overtime (Aug. 6, 2026)](https://www.irs.gov/newsroom/irs-updates-faqs-on-qualified-overtime-deduction)
https://www.irs.gov/newsroom/irs-updates-faqs-on-qualified-overtime-deduction

AUTHORITY

[IR-2026-10 — FAQs issued for qualified overtime compensation](https://www.irs.gov/newsroom/treasury-irs-issue-faqs-to-address-the-new-deduction-for-qualified-overtime-compensation-under-the-one-big-beautiful-bill)
https://www.irs.gov/newsroom/treasury-irs-issue-faqs-to-address-the-new-deduction-for-qualified-overtime-compensation-under-the-one-big-beautiful-bill

AUTHORITY

[IR-2025-114 — Guidance for individuals with 2025 tips or overtime](https://www.irs.gov/newsroom/treasury-irs-provide-guidance-for-individuals-who-received-tips-or-overtime-during-tax-year-2025)
https://www.irs.gov/newsroom/treasury-irs-provide-guidance-for-individuals-who-received-tips-or-overtime-during-tax-year-2025

IRS News Releases (cont.)

AUTHORITY

IR-2025-110 — Penalty relief for 2025 tip and overtime reporting

https://www.irs.gov/newsroom/treasury-irs-provide-penalty-relief-for-tax-year-2025-for-information-reporting-on-tips-and-overtime-under-the-one-big-beautiful-bill

AUTHORITY

IR-2026-35 — Updated Tax Withholding Estimator

https://www.irs.gov/newsroom/updated-tax-withholding-estimator-lets-millions-of-taxpayers-take-one-big-beautiful-bill-changes-into-account-when-calculating-their-withholding

AUTHORITY

Schedule 1-A publication announcement

https://www.irs.gov/newsroom/irs-published-schedule-taxpayers-will-use-to-claim-deductions-on-no-tax-on-tips-no-tax-on-overtime-no-tax-on-car-loans-no-tax-on-seniors

IRS Tax Tips and Articles

AUTHORITY

[Tax Tip 2026-05 — How to take advantage of no tax on tips and overtime](https://www.irs.gov/newsroom/one-big-beautiful-bill-how-to-take-advantage-of-no-tax-on-tips-and-overtime)

https://www.irs.gov/newsroom/one-big-beautiful-bill-how-to-take-advantage-of-no-tax-on-tips-and-overtime

AUTHORITY

[What to know about the No Tax on Overtime deduction](https://www.irs.gov/newsroom/what-to-know-about-the-no-tax-on-overtime-deduction)

https://www.irs.gov/newsroom/what-to-know-about-the-no-tax-on-overtime-deduction

AUTHORITY

[Tax Tip 2026-12 — New and enhanced deductions for individuals](https://www.irs.gov/newsroom/new-and-enhanced-deductions-for-individuals)

https://www.irs.gov/newsroom/new-and-enhanced-deductions-for-individuals

IRS Forms and Instructions

AUTHORITY

Schedule 1-A (Form 1040), Additional Deductions

https://www.irs.gov/pub/irs-pdf/f1040s1a.pdf

AUTHORITY

Instructions for Form 1040 — includes Schedule 1-A instructions

https://www.irs.gov/pub/irs-pdf/i1040gi.pdf

AUTHORITY

2026 General Instructions for Forms W-2 and W-3 (PDF)

https://www.irs.gov/pub/irs-pdf/iw2w3.pdf

IRS Forms and Tools (cont.)

AUTHORITY

2026 General Instructions for Forms W-2 and W-3 (web)

https://www.irs.gov/instructions/iw2w3

AUTHORITY

About Form W-4 — 2026 revision, step 4(b) worksheet

https://www.irs.gov/forms-pubs/about-form-w-4

AUTHORITY

Tax Withholding Estimator

https://www.irs.gov/individuals/tax-withholding-estimator

IRS Landing Pages

AUTHORITY

[Working Families Tax Cuts — main hub](https://www.irs.gov/newsroom/working-families-tax-cuts)

https://www.irs.gov/newsroom/working-families-tax-cuts

AUTHORITY

[Working Families Tax Cuts — Individuals and workers](https://www.irs.gov/newsroom/working-families-tax-cuts-individuals-and-workers)

https://www.irs.gov/newsroom/working-families-tax-cuts-individuals-and-workers

AUTHORITY

[Fact sheets for frequently asked questions — index](https://www.irs.gov/newsroom/fact-sheets-for-frequently-asked-questions)

https://www.irs.gov/newsroom/fact-sheets-for-frequently-asked-questions

Department of Labor — FLSA

AUTHORITY

[Fact Sheet #14 — Coverage under the FLSA]

https://www.dol.gov/agencies/whd/fact-sheets/14-flsa-coverage

AUTHORITY

Fact Sheet #23 — Overtime pay requirements of the FLSA

https://www.dol.gov/agencies/whd/fact-sheets/23-flsa-overtime-pay

AUTHORITY

Fact Sheet #56A — Overview of the regular rate of pay

https://www.dol.gov/agencies/whd/fact-sheets/56a-regular-rate

Department of Labor (cont.)

AUTHORITY

Fact Sheet #21 — FLSA recordkeeping

https://www.dol.gov/agencies/whd/fact-sheets/21-flsa-recordkeeping

AUTHORITY

WHD Fact Sheets index — #7, #8, #17A/B/E/F, #19, #20, #22, #54
https://www.dol.gov/agencies/whd/fact-sheets

AUTHORITY

WHD Opinion Letter FLSA2026-6 — bonuses in the regular rate
https://www.dol.gov/sites/dolgov/files/WHD/opinion-letters/FLSA/FLSA2026-6.pdf

OPM and Federal Employees

AUTHORITY

[Handy Reference Guide to the FLSA — exemptions]

https://www.dol.gov/agencies/whd/compliance-assistance/handy-reference-guide-flsa

AUTHORITY

OPM — How to Compute FLSA Overtime Pay

https://www.opm.gov/policy-data-oversight/pay-leave/pay-administration/fact-sheets/how-to-compute-flsa-overtime-pay/

AUTHORITY

5 CFR Part 551 — OPM FLSA regulations

https://www.ecfr.gov/current/title-5/chapter-I/subchapter-B/part-551?toc=1

AICPA

AUTHORITY

[Journal of Accountancy — IRS releases FAQs on the overtime deduction](https://www.journalofaccountancy.com/news/2026/jan/irs-releases-faqs-on-qualified-overtime-pay-deduction-under-h-r-1/)

https://www.journalofaccountancy.com/news/2026/jan/irs-releases-faqs-on-qualified-overtime-pay-deduction-under-h-r-1/

AUTHORITY

[The Tax Adviser — same coverage](https://www.thetaxadviser.com/news/2026/jan/irs-releases-faqs-on-qualified-overtime-pay-deduction-under-h-r-1/)

https://www.thetaxadviser.com/news/2026/jan/irs-releases-faqs-on-qualified-overtime-pay-deduction-under-h-r-1/

AUTHORITY

[Journal of Accountancy — Schedule 1-A published](https://www.journalofaccountancy.com/news/2026/mar/new-schedule-1-a-for-tips-ot-car-loans-and-seniors-deductions-published/)

https://www.journalofaccountancy.com/news/2026/mar/new-schedule-1-a-for-tips-ot-car-loans-and-seniors-deductions-published/

REFERENCE — NOT PRESENTED LIVE

Appendix: The Case Law, In Detail

Five cases, ranked by dollar amount recharacterized. Non-CPA owners only — a handful of others exist but aren't shown here.

AUTHORITY: every source below is usable and citable directly.

Links are to third-party sources · current as of August 25, 2026

Sean McAlary Ltd., Inc. v. Commissioner

T.C. Summary Opinion 2013-62 (2013) — real estate broker, sole shareholder

WAGES REPORTED

$0

TOTAL PAYMENTS TAKEN

$185,842

IRS PROPOSED

$100,755

COURT DETERMINED

$83,200 wages

REMAINED A DISTRIBUTION

$102,642

2006 NET INCOME

$231,454

WHAT HAPPENED

McAlary once agreed to a $24,000 salary on paper but never actually paid it — the court called it "forgotten, ignored, or mere window dressing." He never tried. The IRS's expert proposed $100,755 using California real estate broker wage data. The court didn't fully accept that number either — it built its own hourly rate ($40/hour, reflecting McAlary's actual workload running the brokerage single-handedly) and landed at $83,200.

$83,200 of $185,842 recharacterized as wages — 45% of everything he took.

Glass Blocks Unlimited v. Commissioner

T.C. Memo. 2013-180 (2013) — glass block manufacturer, sole president

WAGES REPORTED

$0

2007 PAYMENTS

$30,844 recharacterized

2008 PAYMENTS

$31,644 recharacterized

TOTAL RECHARACTERIZED

$62,488 (100%)

2007 PROFIT BEFORE ADJ.

$877

2007 RESULT AFTER ADJ.

Net loss of $3,410

WHAT HAPPENED

The company's president was its only full-time worker and generated all of its income, yet took $0 in wages — calling the money a mix of dividends and shareholder-loan repayments instead. The court found no documentation supporting a bona fide loan, and found that the company's payment of the president's personal insurance and utility bills was itself further evidence of compensation. Even though the recharacterization pushed a marginally profitable year into a loss, the court still required it in full.

100% of $62,488 recharacterized — even in years the company barely broke even.

Ward v. Commissioner

T.C. Memo. 2021-32 (Mar. 15, 2021) — attorney, sole owner of her law firm

2011 TREATMENT

Corp deducted it; she reported $0

2013 TREATMENT

Corp reported $0 comp; she said wages

HER EVIDENCE

Her own testimony only — no records

2012 TREATMENT

Reported as income, not as wages

WAGES PAID

Inconsistent — no reliable total by year

RESULT

100% of all payments, every year

WHAT HAPPENED

Not "she paid no wages" — she reported the same kind of payment three different ways in three straight years, and none of those years matched what the corporation itself claimed on its own return. At trial, the IRS argued that as sole officer performing all the services, every dollar she received was wages, none of it a dividend. Her only evidence otherwise was her own testimony — no board resolution, no contemporaneous record of what any payment was meant to be. The Tax Court put the burden of proof on her, and she could not meet it.

100% recharacterized — every year, every dollar, no exceptions.

Radtke v. United States

895 F.2d 1196 (7th Cir. 1990) — the case that started this whole line

CONTRACT BASE SALARY

Fixed at $0 by written agreement

WAGES REPORTED

$0

COURT

7th Circuit, per curiam, 1990

1982 DIVIDENDS TAKEN

$18,225 — the only payment all year

ROLE

Sole director, shareholder, full-time attorney

RESULT

$18,225 recharacterized — 100%

WHAT HAPPENED

Radtke ran his own law firm as its only full-time employee and its sole director — the one person in the building who could have voted himself a salary, and didn't. His employment contract fixed his base salary at $0, and he took the entire $18,225 for the year as "dividends" instead. The district court applied a substance-over-form test and found the payments were "clearly remuneration for services performed." The Seventh Circuit affirmed. This is the case nearly every later decision on this list cites first.

100% recharacterized — the original appellate win for this theory.

Davis v. United States — the Taxpayer Win

1994 U.S. Dist. LEXIS 10725 (D. Colo. 1994) — Mile High Calcium, 1987–1989

IRS SOUGHT

$39,221 in tax, interest, penalties

SHAREHOLDER CHALLENGED

Henry Adams, listed as president

ADAMS'S ACTUAL ROLE

Worked full-time elsewhere

FINAL ASSESSMENT

$647

WHAT HAPPENED

The IRS used the same blanket approach it used in every other case on this list — recharacterize every transfer as wages. But the facts here didn't support it. Adams held the title of president but worked full-time for other companies during these years, and the evidence showed he provided no substantial services to Mile High Calcium. The court called the government's position "arbitrary and capricious, and without any basis in law or fact."

Assessment cut from $39,221 to $647 — facts and circumstances cut both ways.

Case Citations

AUTHORITY

[Sean McAlary Ltd., Inc. v. Comm'r]

T.C. Summm. Op. 2013-62

https://www.courtlistener.com/opinion/1037447/sean-mcalary-ltd-inc-v-commissioner/

AUTHORITY

Glass Blocks Unlimited v. Comm'r

T.C. Memo. 2013-180

https://www.leagle.com/decision/intco20130807d61

AUTHORITY

Ward v. Commissioner

T.C. Memo. 2021-32 (Mar. 15, 2021)

https://www.ustaxcourt.gov/

Case Citations (cont.)

AUTHORITY

Radtke v. United States

895 F.2d 1196 (7th Cir. 1990)

https://www.courtlistener.com/opinion/536230/joseph-radtke-sc-v-united-states/

AUTHORITY

Davis v. United States

1994 U.S. Dist. LEXIS 10725 (D. Colo.)

https://rcreports.com/blog/did-the-irs-really-lose-lessons-from-the-davis-case/

IRS Guidance

AUTHORITY

[Wage Compensation for S Corp Officers]

IRS newsroom — the nine factors

https://www.irs.gov/newsroom/wage-compensation-for-s-corporation-officers

AUTHORITY

[S Corp Employees, Shareholders, Officers]

IRS small business guidance page

https://www.irs.gov/businesses/small-businesses-self-employed/s-corporation-employees-shareholders-and-corporate-officers

Appendix

Primary authority for the Partnership Share of Liabilities module. Not presented live; for reference and follow-up research.

AUTHORITY: every source below is usable and citable directly.

Links are to third-party sources · current as of August 25, 2026

Treasury Regulations

AUTHORITY

[Treas. Reg. §1.752-2 — Recourse Liabilities](https://www.ecfr.gov/current/title-26/chapter-I/subchapter-A/part-1/subject-group-ECFRa5bc2d5ea730273/section-1.752-2)

Recourse liabilities & economic risk of loss

https://www.ecfr.gov/current/title-26/chapter-I/subchapter-A/part-1/subject-group-ECFRa5bc2d5ea730273/section-1.752-2

AUTHORITY

Treas. Reg. §1.752-3 — Nonrecourse Liabilities

Three-tier nonrecourse allocation rule

https://www.law.cornell.edu/cfr/text/26/1.752-3

AUTHORITY

Treas. Reg. §1.752-4 — Tiered Partnerships

Lower-tier liabilities flow to upper-tier

https://www.ecfr.gov/current/title-26/chapter-I/subchapter-A/part-1/subject-group-ECFRa5bc2d5ea730273/section-1.752-4

Cases & Guidance

AUTHORITY

Bordelon v. Commissioner, T.C. Memo. 2020-26

Genuine guarantee creates EROL and basis

https://brieflytaxing.com/wp-content/uploads/2021/04/T.C.-Memo.-2020-26-Bordelon-v.-Commissioner.pdf

AUTHORITY

T.D. 9877 — Final Bottom-Dollar Guarantee Regs

Bottom-dollar obligations not recognized

https://www.irs.gov/pub/irs-drop/td9877.pdf

AUTHORITY

Brand v. Commissioner, 81 T.C. 821 (1983)

Reimbursable guarantee is not economic risk

https://case-law.vlex.com/vid/brand-v-comm-r-894453055

REFERENCE — NOT PRESENTED LIVE

Appendix — Passive and Nonpassive

Reference material for follow-up research and client files. Not part of the live presentation.

AUTHORITY: every source below is usable and citable directly.

Links are to third-party sources · current as of August 25, 2026

PRIMARY LAW & REGULATIONS

AUTHORITY

IRC §469 — Passive Activity Losses and Credits

The statute, enacted by the 1986 Tax Reform Act.
https://www.law.cornell.edu/uscode/text/26/469

AUTHORITY

Temp. Reg. §1.469-5T — Material Participation

The seven tests and the limited-partner restriction.
https://www.ecfr.gov/current/title-26/chapter-I/subchapter-A/part-1/subject-group-ECFR3ce16dae2e57cf9/section-1.469-5T

AUTHORITY

IRS Publication 925 — Passive Activity and At-Risk Rules

General passive-activity guidance and worked examples.
https://www.irs.gov/publications/p925

COURT CASES

AUTHORITY

[Garnett v. Commissioner, 132 T.C. 368 (2009)]

LLP/LLC members aren't automatic "limited partners."

https://www.ustaxcourt.gov/

Appendix: SE Tax & Partnerships

Deeper material beyond the 25 presented slides: entity-by-entity K-1 detail, the full circuit map, additional common mistakes, and source citations.

AUTHORITY: every source below is usable and citable directly.

Links are to third-party sources · current as of August 25, 2026

K-1 for an LLC Taxed as a Partnership

Schedule K-1 (Form 1065) — Part III

Box 1 Ordinary Income

SE-taxable if member is active

Box 14 SE Earnings

Code A — depends on role

Box 4a GP for Services

SE income — no exception

Box 19 Distributions

Not SE if genuinely passive

Box 4b GP for Capital

Unsettled for LLC members

No statute settles whether an LLC member can claim the §1402(a)(13) exclusion — courts apply the functional test anyway, not just the manager label.

IRC §1402(a)(13); Renkemeyer v. Comm'r, 136 T.C. 137 (2011)

K-1 for a General Partnership

Schedule K-1 (Form 1065) — Part III

Box 1 Ordinary Income

Flows straight to SE earnings

Box 14 SE Earnings

Code A — Box 1 + both GP types

Box 4a GP for Services

SE income — no exception

Box 19 Distributions

Not SE income; rare for a GP

Box 4b GP for Capital

Also SE income for a GP

No services/capital split for a general partner. Distributive share and every GP — services or capital — land in SE earnings. Only a genuine distribution escapes SE tax.

IRC §1402(a); Partner's Instructions for Schedule K-1 (Form 1065)

Which States Are In Which Circuit?

Georgia is 11th Circuit; Oklahoma is 10th Circuit — bound by neither.

1. **FIRST CIRCUIT — Denham (pending)**
   Maine, Massachusetts, New Hampshire, Rhode Island, Puerto Rico.

2. **SECOND CIRCUIT — Soroban (pending)**
   New York, Connecticut, Vermont.

3. **FIFTH CIRCUIT — Sirius Solutions (decided)**
   Texas, Louisiana, Mississippi. Taxpayer won.

'Sirius Solutions Settled This'

✕

WHAT PRACTITIONERS BELIEVE

Practitioners cite the Fifth Circuit's Sirius Solutions win as if it settled the limited-partner question everywhere, advising clients outside the circuit.

✓

WHAT THE AUTHORITY SAYS

Sirius Solutions binds only the Fifth Circuit. Elsewhere, the Tax Court's functional test from Soroban still controls unless the Second or First Circuit says otherwise.

WHY IT MATTERS

Sirius Solutions (5th Cir.); Soroban (2d Cir.)

The Second Circuit panel deciding Soroban itself sounded skeptical of the taxpayer's position at the June 2026 argument. Relying on Sirius Solutions outside the Fifth Circuit — including for Georgia and Oklahoma clients — advises into a position the controlling court hasn't accepted.

Calling It a Distribution Doesn't Make It One!

✕

WHAT PRACTITIONERS BELIEVE

A steady monthly payment to a working partner gets coded as a distribution by bookkeeping default, with no guaranteed payment on the K-1.

✓

WHAT THE AUTHORITY SAYS

What controls is what the payment compensates. A fixed payment to a working partner looks like pay for services — a guaranteed payment under §707(c), Box 4a, SE-taxable.

WHY IT MATTERS

IRC §707(c); Sch. K-1 (1065) Instructions

This is the most common and most fixable version of the topic. It needs no circuit-split judgment call — just asking whether the payment moves with profits, and coding it correctly the first time.

Statute & Forms

AUTHORITY

IRC §1402(a) — Net Earnings from SE

Includes the §1402(a)(13) exception

https://www.law.cornell.edu/uscode/text/26/1402

AUTHORITY

IRC §707(c) — Guaranteed Payments

Statutory basis for GP treatment

https://www.law.cornell.edu/uscode/text/26/707

AUTHORITY

Partner's Instructions, Schedule K-1 (1065)

Box 4a/4b/4c and Box 14 detail

https://www.irs.gov/instructions/i1065sk1

Case Law — Limited Partner Split

AUTHORITY

[Soroban Capital Partners LP v. Commissioner]

161 T.C. 310; on appeal, 2d Cir. No. 25-2079

https://ustaxcourt.gov/files/documents/161_TC_112-328.pdf

AUTHORITY

[Sirius Solutions, L.L.L.P. v. Commissioner]

5th Cir. Jan. 16, 2026 — state-law status controls

https://www.ca5.uscourts.gov/opinions/pub/24/24-60240-CV0.pdf

AUTHORITY

[Denham Capital Management LP v. Commissioner]

T.C. Memo. 2024-114; on appeal, 1st Cir.

https://dawson.ustaxcourt.gov/case-detail/9973-23

REFERENCE — NOT PRESENTED LIVE

Appendix
Sources for This Module

Every effective-date paragraph presented in this module is reproduced verbatim from the Joint Committee on Taxation's General Explanation of Public Law 119-21.

AUTHORITY: every source below is usable and citable directly.

Links are to third-party sources · current as of August 25, 2026

Statute and Legislative Explanation

AUTHORITY

JCT General Explanation of P.L. 119-21 (JCS-1-26), May 2026

Present law, explanation and effective date, all 111 provisions.

https://www.jct.gov/publications/2026/jcs-1-26/

AUTHORITY

Public Law 119-21, One Big Beautiful Bill Act

The enacted statute. Controls wherever the Bluebook diverges.

https://www.congress.gov/bill/119th-congress/house-bill/1/text

Authority Standard

AUTHORITY

26 CFR 1.6662-4 — Substantial understatement of income tax

Paragraph (d)(3)(iii) names the Blue Book in the list of authorities.

https://www.ecfr.gov/current/title-26/chapter-I/subchapter-A/part-1/section-1.6662-4

AUTHORITY

Internal Revenue Service — Newsroom

Post-Bluebook guidance. The Bluebook is current only through May 2026.

https://www.irs.gov/newsroom