From: Faith Kates <[redacted]>
Sent: Sunday, December 31, 2017 8:39 PM
To: jeevacation@gmail.com
Subject: Fwd: wages vs flow-through

From Michael

Faith/Joel--You are no doubt awar= of the so-called "pass-thru" deduction for "QBI"--new=Code section 199A which should apply to your interests in Next so as to re=uce somewhat your individual taxes on the (non-compensation,non guaranteed payment) income you derive from Next. The new law is =xtraordinarily complicated-- and requires many variable calculations appli=able to your particular business. Therefore the net tax savings must await=detailed analysis. The calculation below is but one simple part of the equation. One thing that is clear,however, i= that "compensation" above certain amounts and "guaranteed =ayments" are "bad" for purposes of the new provision---&quo=;Flow-through" income is treated preferentially. New law applies in 2018---it should benefit you ---attorneys and accountants don't get the be=efit--nor do "employees". Happy New Year to everyone. (Gar=---we will somehow survive this 1,067 page abomination.)

Suppose Taxpayer is a partner or S corp shareholde= and there are $100 of profits that can be paid either as wages or distrib=ted as flow-through to Taxpayer. (I understand that a tiered structu=e would be needed to pay wages to T in partnership form.) Suppose T's share of wages paid to others is $W=/p>

The optimal distribution between wages and f=ow-through is this—

Wages to T: $28.6 – .714W

Flow-through to T: $71.4 + .714W

Total to T: $100

For example, simplifying by assuming there are no =hird-party wages, $100 of earnings for T should be divided $28.6 wages and=$71.4 flow-through. That way 20% of flow-through (.2 x $71.4 = $14=3) is equal to 50% of wages (.5 x $28.6 = $14.3).