

# Business Owner Tax Planning Analysis

2025 Tax Year | Comprehensive Optimization Strategy

Client: **Marcus & Sarah Chen** · Date: **June 2026**

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## Tax Situation at a Glance

TOTAL HOUSEHOLD  
INCOME  
**\$622,000**

ADJUSTED GROSS  
INCOME  
**\$572,200**

TAXABLE INCOME  
**\$528,700**

TOTAL TAX LIABILITY  
**\$171,260**

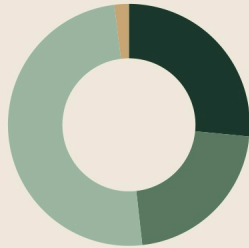
MARGINAL FEDERAL  
BRACKET  
**35%**

EFFECTIVE FEDERAL RATE  
**21.7%**

Marcus and Sarah Chen have strong combined household income of \$622,000, driven primarily by Marcus's S-Corporation. Currently positioned in the 35% federal marginal bracket, the household faces a total tax burden of \$171,260 across federal, state, and payroll taxes. This analysis identifies strategies that could reduce federal taxes by an estimated \$46,000 annually while building significant retirement wealth.

## Income Composition

### Income by Source



- S-Corp W-2 (Marcus)  
**\$165,000** | 26.5%
- W-2 Salary (Sarah)  
**\$135,000** | 21.7%
- S-Corp K-1 Pass-Through  
**\$310,000** | 49.8%
- Investment Income  
**\$12,000** | 1.9%

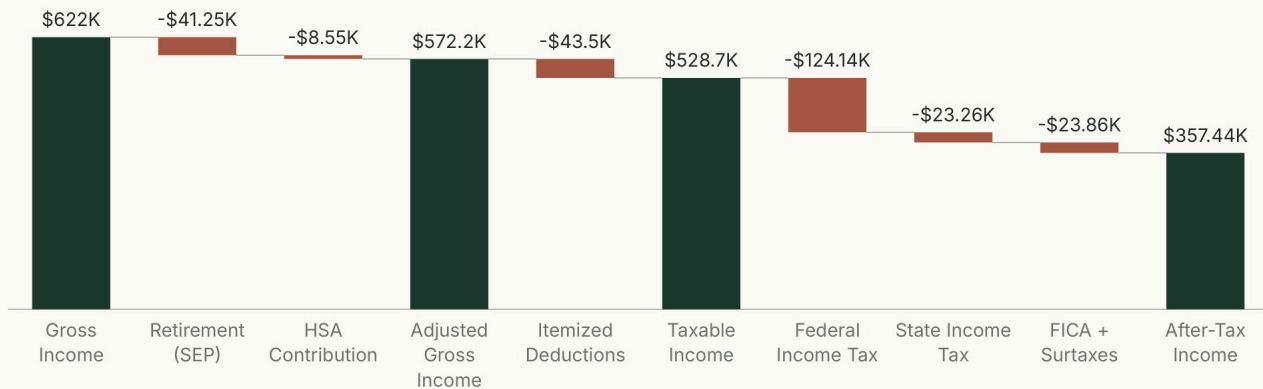
### Total Tax Burden



- Federal Income Tax  
**\$124,140** | 72.5%
- Colorado Income Tax  
**\$23,260** | 13.6%
- Employee FICA  
**\$22,950** | 13.4%
- Additional Medicare + NIIT  
**\$910** | 0.5%

## From Gross Income to After-Tax Dollars

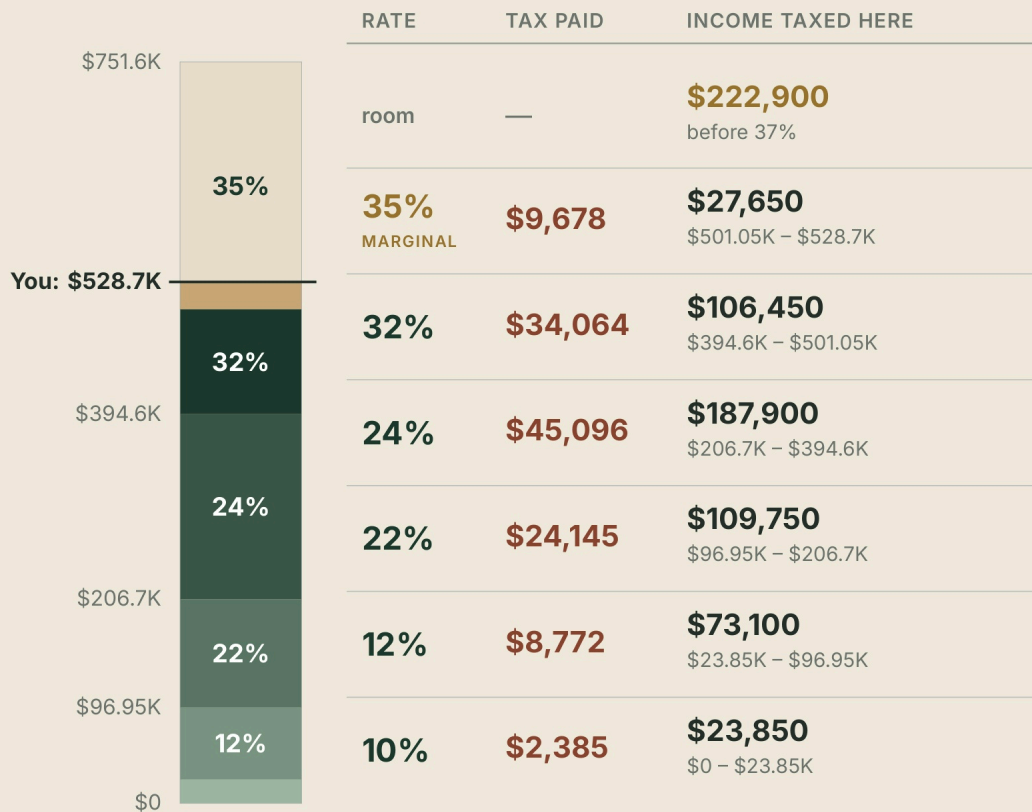
### Income-to-Tax Bridge



## Federal Bracket Analysis

### How Your Income Is Taxed (2025 MFJ Brackets)

Taxable income **\$528,700** · Effective **23.5%** · Marginal **35%**



**Bracket Positioning Insight** The Chens are only \$27,650 into the 35% bracket, with \$222,900 of room before the 37% bracket. Targeted deduction strategies — particularly enhanced retirement plan contributions — could push taxable income back into the 32% bracket, saving 3 percentage points on every dollar shifted.

## Business and Personal Tax Connection

Marcus operates Chen Digital LLC as an S-Corporation, creating direct links between business decisions and personal tax outcomes. The entity structure, compensation level, and retirement plan design all flow through to the household’s Form 1040.

S-Corp Reasonable Compensation

**\$165,000**

K-1 Pass-Through Income

**\$310,000**

Total Business Income

**\$475,000**

Employee FICA on W-2

**\$12,620**

QBI Deduction (Sec. 199A)

**\$0**

QBI Status

**Phased Out (SSTB)**

**Qualified Business Income Deduction** As a marketing services firm, Chen Digital is classified as a Specified Service Trade or Business (SSTB). With household AGI of \$572,200 — well above the 2025 MFJ complete phase-out threshold — the Section 199A QBI deduction is fully eliminated. While reducing AGI through retirement contributions will not recover QBI at this income level, it remains the most effective strategy for bracket management and long-term wealth building.

## Retirement Plan Optimization

This represents the single largest tax planning opportunity for the Chen household. Transitioning from a SEP-IRA to a Solo 401(k) combined with a Cash Balance Pension Plan could generate an additional \$143,500 in annual tax deductions and reduce the marginal bracket from 35% to 24%.

Attribute	Current: SEP-IRA	★ Proposed: 401(k) + Cash Balance
Annual Contribution	\$41,250	\$184,750
Additional Deduction vs. Current	---	\$143,500
Estimated Federal Tax	\$124,140	\$78,140
Annual Federal Tax Savings	---	\$46,000
Marginal Federal Bracket	35%	24%
Taxable Income	\$528,700	\$385,200
Effective Federal Rate	23.5%	20.3%

Solo 401(k) Employee Deferral

**\$23,500**

Cash Balance Plan Contribution

**\$120,000**

Projected 10-Year Retirement Wealth

**\$2,400,000**

Solo 401(k) Employer Contribution

**\$41,250**

Total Annual Contribution

**\$184,750**

Projected 10-Year Tax Savings

**\$460,000**

**Implementation Requirements** The Cash Balance Plan contribution of \$120,000 is estimated based on Marcus's age (48) and compensation level. An enrolled actuary must design the plan and certify annual contributions. Both plans must be established by December 31 to deduct contributions for that tax year, though funding may extend to the tax filing deadline including extensions.

## Estimated Tax Coordination

With inconsistent business cash flow, estimated tax payments require a deliberate, structured approach. The IRS safe harbor rule for high-income taxpayers (AGI above \$150,000) requires quarterly payments totaling 110% of the prior year's tax liability to avoid underpayment penalties.

Quarter	Due Date	Est. Business Income	Federal Payment	State Payment
Q1	April 15	\$65,000	\$22,000	\$5,300
Q2	June 15	\$85,000	\$22,000	\$5,300
Q3	September 15	\$90,000	\$22,000	\$5,300
Q4	January 15	\$70,000	\$22,000	\$5,300
<b>Total</b>		<b>\$310,000</b>	<b>\$88,000</b>	<b>\$21,200</b>

**Leveling Payments Despite Uneven Cash Flow** Rather than tying estimated payments to each quarter's actual business income, the safe harbor method uses equal quarterly installments based on 110% of prior-year total tax. This eliminates underpayment penalty risk during lean quarters and removes the administrative complexity of recalculating each period. Excess cash during strong quarters should flow into a dedicated tax reserve account.

## Tax Optimization Opportunities

1. **Implement Solo 401(k) + Cash Balance Plan:** Engage a third-party administrator and enrolled actuary to design and establish both plans before December 31. This single strategy could reduce federal taxes by approximately \$46,000 annually and shift the household from the 35% to the 24% marginal bracket.
2. **Establish a Dedicated Tax Reserve Account:** Open a high-yield savings account solely for estimated tax payments. Transfer 30--35% of each S-Corp distribution into this reserve to ensure quarterly payments are fully funded regardless of revenue timing.
3. **Validate S-Corp Reasonable Compensation:** The current W-2 of \$165,000 should be benchmarked against industry data for a marketing agency owner generating \$1.8M in revenue. Compensation set too low invites IRS scrutiny; compensation set too high increases payroll tax exposure unnecessarily.
4. **Explore Charitable Giving Through a Donor-Advised Fund:** At the current income level, bunching charitable contributions via a Donor-Advised Fund could generate \$12,000 to \$17,500 in additional tax savings in the contribution year while maintaining consistent giving over multiple years.
5. **Evaluate Entity Structure with CPA:** Discuss whether the S-Corporation election remains optimal or whether a C-Corporation structure could benefit the household given the 21% flat corporate rate and potential for retained earnings strategies at this income level.
6. **Maximize HSA Contributions:** Ensure the family HSA is fully funded at \$8,550 for 2025. Consider investing HSA balances for long-term growth, leveraging the triple tax advantage of deductible contributions, tax-free growth, and tax-free qualified withdrawals.

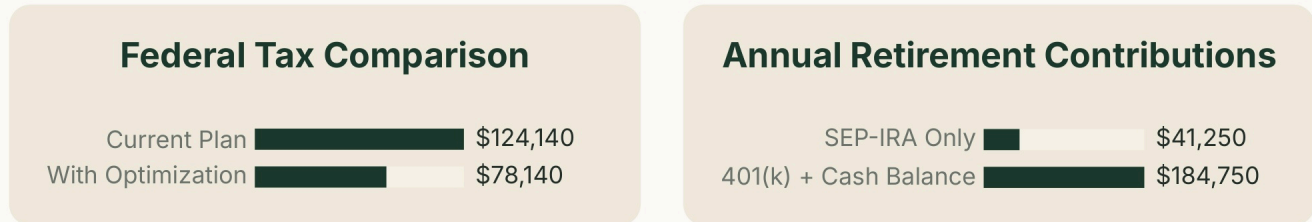
## Questions for Your CPA

The following topics should be reviewed with the household's CPA to ensure business and personal tax strategies are fully coordinated.

Topic Area	Discussion Point
Entity Structure	Should we model an S-Corp vs. C-Corp comparison given current income levels?
Reasonable Comp.	What documentation supports the current \$165,000 compensation level?
Retirement Plans	Can you coordinate with a TPA on Solo 401(k) + Cash Balance Plan compliance and testing?
QBI Deduction	Are there any restructuring strategies that could recover partial QBI benefits?
Estimated Taxes	What was the 2024 total tax liability to calculate the 110% safe harbor amount?
Colorado Credits	Are all available Colorado-specific credits and deductions being utilized?
Depreciation	Is the business maximizing Section 179 and bonus depreciation for equipment purchases?

Topic Area	Discussion Point
Succession Plan	How does the long-term exit or succession plan affect current-year tax positioning?

## Projected Federal Tax Impact



### IMPORTANT DISCLOSURES

This analysis is a **sample deliverable** prepared for illustrative purposes using hypothetical client data. All figures, tax calculations, and strategies are based on estimated 2025 federal and state tax parameters and are subject to change based on final legislation and IRS guidance. This document does not constitute tax, legal, or investment advice. Actual tax outcomes depend on complete financial data, applicable regulations, and individual circumstances. All strategies should be reviewed with a qualified CPA or tax professional before implementation.