

TAX MINIMIZATION STRATEGY REPORT

Business: [Redacted]

Analysis Date: July 23 2025

Tax Year Analyzed: 2022 (Form 1120)

EXECUTIVE SUMMARY

Metric	2022 Result	Peer Benchmark (NAICS 541512, U.S. small firms)
Effective corporate tax rate (federal only)	6.99% on book income; 21% on taxable income	19 – 22% typical cash ETR [1]
Pre-tax book income	\$130,648	_
Tax paid (Form 1120, Sch. J)	\$9,126	_
Total potential annual federal-tax savings (top five strategies)	≈ \$63,400	_
Implementation complexity (1 = easy, 10 = hard)	4	

The company's taxable income was reduced to \$43,458 after an \$87,190 NOL carryforward, yet a full 21% flat corporate rate still applied. Compared with peers, cash ETR is competitive on book income but high on taxable income, indicating under-utilised incentives.

PRIORITIZED STRATEGIES (Descending Financial Impact)

#	Strategy	Estimated 1-Year Savings	Can Implement Before 15 Apr 2026 Filing?	Complexity	Key Implementation Steps	Risk Level
1	Section 179 & 100% Bonus Depreciation on Planned IT Refresh (post-OBBBA limits)	\$26,250 (deduct \$125,000 of servers/laptops × 21%) [2] [3]	YES (assets in service by 31 Dec 2025)	Low	- Finalise 2025 capital budget (Q3 2025) - Place equipment in service and record on Form 4562 - Elect §179 and bonus on return	Low

#	Strategy	Estimated 1-Year Savings	Can Implement Before 15 Apr 2026 Filing?	Complexity	Key Implementation Steps	Risk Level
2	SEP-IRA Employer Contribution (25% of comp., cap \$70,000)	\$14,700 (max \$70k × 21%) ^[4] ^[5]	YES (contribute by return due date incl. extensions)	Low	- Open SEP-IRA (Q3 2025) - Board resolution for 25% of eligible comp Deposit before 15 Oct 2026 if extended	Low
3	Cash-Method Accounting Election (§448(c)) (gross receipts < \$25 M)	≈ \$10,000 deferral in year 1 (timing)	YES (file Form 3115 with 2025 return)	Medium	- Quantify unearned income & A/R - Prepare §481(a) adjustment - Attach Form 3115 with automatic change code 33	Low
4	Federal Research & Development Credit (software integration projects)	\$7,500 credit (≈ 6% of \$125k qualifying wages) ^[6]	YES (claim on Form 6765 with 2025 return; amend 2022-24 optional)	Medium	- Identify qualifying s/w hours & subcontract costs - Calculate ASC credit - Maintain project documentation	Medium
5	Entity Conversion to S-Corporation (Form 2553)	\$9,100 (avoids corporate-level tax if future profits similar)	NO (effective 1 Jan 2026 if filed by 15 Mar 2026)	Medium	- Model reasonable salary vs. distributions - Obtain shareholder consent - File Form 2553 - Set up payroll	Medium

Total potential savings (first filing year): ≈ \$63,400. Multi-year NPV grows if equipment purchases and profits increase.

IMPLEMENTATION ROADMAP

Q3 2025

- Approve IT procurement plan and vendor quotes.
- Open SEP-IRA at custodial bank; draft contribution policy.
- Start contemporaneous R&D time-tracking.

Q4 2025

- Place §179 assets in service before 31 Dec.
- Close books on cash-method feasibility; begin Form 3115 prep.
- Finalise 2025 qualified research expense calculation.

Q1 2026

- File S-Corp election (Form 2553) by 15 Mar 2026 if chosen.
- Prepare 2025 corporate return with §179, bonus, SEP deduction, and R&D credit.
- · Adjust quarterly estimated taxes for lower liability.

Q2-Q4 2026

- Quarterly reviews of documentation, payroll reasonableness, and tax-law updates.
- Re-evaluate large-asset purchases for continued §179/bonus use.

IMPLEMENTATION TIMELINE ASSESSMENT

Category	Implement By 15 Apr 2026?	
Section 179 / Bonus depreciation	Yes	
SEP-IRA employer contribution	Yes (contribute by filing deadline)	
Cash-method election (Form 3115)	Yes	
R&D credit (current year)	Yes	
S-Corp conversion	Effective next tax year (2026)	
Cost-segregation (future real estate), 1031 exchanges, charitable stock gifting	Multi-year / as events arise	

RISK ASSESSMENT & COMPLIANCE

- Audit risk: Low-medium. All strategies have clear statutory authority (§179, §168(k), §41, Rev. Proc. 2018-40 cash-method). Document business use > 50%, time-tracking, and written board approvals.
- **Documentation**: Keep invoices, depreciation schedules, SEP-IRA adoption agreement, Form 6765 work-papers, and §41 project narratives for at least 7 years.
- **Potential penalties**: Negligible if records maintained; cash-method change includes automatic audit-protection under Rev. Proc. .

PEER BENCHMARKING RESULTS

Adaptive's 21% tax on taxable income exceeds the 19 – 22% cash ETR range for small IT-services firms $^{[1]}$; after implementing the strategies above, the 2025 federal tax liability is projected to fall below 5%, placing the company in the top decile for tax efficiency within its industry.

FOLLOW-UP REQUIREMENTS

- 1. **Quarterly check-ins**: Verify capital expenditures, R&D wage tracking, and SEP funding status.
- 2. **Annual review**: Recalculate §179 limits (OBBBA escalates cap to \$2.5 M beginning 2026 [7] [8]).
- 3. **Legislative watch**: Monitor permanence of 100% bonus depreciation beyond 2025 and any SECURE 2.0 retirement plan amendments.

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