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Tax-Saving Tips

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A Little-Known Way to Pay Family and Save on Taxes

Many business owners overlook a powerful strategy that allows them to pay family members, reduce taxes, and avoid payroll taxes altogether.

You likely know the traditional approach: hire your child and put them on payroll. That strategy works well for younger children in a sole proprietorship. But once your child turns 18—or if you operate as a corporation—payroll taxes usually apply.

In the right situation, a lesser-known alternative offers a better outcome.

You can hire a family member for a "one-time project" instead of ongoing work. This structure allows you to deduct the payment at your higher tax rate while your family member reports the income at a much lower rate—often with little or no tax liability.

For example, you might pay your college-age child to design a website, create marketing materials, or complete a facility upgrade. If you structure the work as a true one-time project—not a continuous or recurring one—the income avoids employee status and thus payroll taxes for both you and the child. It also avoids 1099 independent contractor status and thus self-employment taxes for the child.

This approach can generate meaningful savings. In one scenario, a $23,225 payment produced over $7,800 in net family tax savings.

To make this strategy work, you must follow several key rules:

- Define a clear, one-time project with a specific scope.
- Pay a reasonable, fixed amount upon completion of the project.
- Avoid hourly wages or ongoing tasks.
- Maintain simple documentation and proof of completion.
- Ensure the arrangement supports proper worker classification.

This strategy depends heavily on proper structure and execution. If you treat the work as ongoing employment, you risk having your child or other family member classified as an employee or a 1099 independent contractor.

When done correctly, this approach efficiently shifts income, minimizes taxes, and keeps compliance simple.

Do You Need a W-2 for Spouse-Employee 105-HRA Benefits?

If you employ your spouse in your business and use a Section 105-HRA to deduct family medical expenses, you may be wondering whether issuing a W-2 is necessary.

The good news is, from a tax law standpoint: a W-2 is not required. IRS guidance and court decisions confirm that medical reimbursements under a properly structured Section 105-HRA can qualify as reasonable compensation—even if they are the only form of pay and are not reported as wages.

So why do some business owners still issue a W-2? The answer lies in trade-offs:

1. **Tax impact.** Adding W-2 wages generally does not produce meaningful tax savings. In many cases, it slightly increases overall tax liabilities due to interactions between self-employment taxes and income taxes.

2. **Administrative burden.** Issuing a W-2 means running payroll, including quarterly filings, year-end reporting, and ongoing compliance. This creates additional time and cost burdens as well as the potential for penalties.

3. **Audit perception.** A no-wage setup (large benefits, zero wages) is technically valid but may appear unusual. Adding a salary makes the arrangement look more conventional and may reduce IRS scrutiny.

Bottom line. This decision is not about saving taxes—it's about choosing between simplicity and optics. Skipping the W-2 keeps things lean and compliant; while adding it may provide peace of mind at the cost of added complexity.

Lawyer Burned by Fake AI Tax Cases—Don't Be Next

Artificial intelligence (AI) is all the rage today. AI tools like ChatGPT, Claude, Grok, and Perplexity are being used for everything, including legal research. But beware! AI is not perfect. It's not even intelligent.

AI doesn't think like a human, and it has no internal fact-checker. It produces new content by analyzing vast amounts of prior works ("training data") to identify underlying patterns and structures. It then makes probabilistic predictions about the next word in its answer. In short, it predicts words, not truth.

And AI frequently lies—AI developers call this "hallucinating." One survey of general-purpose AI tools found that they hallucinate 58 percent to 82 percent of the time on legal queries. What about AI tools specially designed for legal research? These tools are more reliable, but they still hallucinate 17 percent to 34 percent of the time.

One attorney found this out the hard way when he apparently relied on AI to perform legal research. He ended up submitting a brief in Tax Court that contained fake and inaccurate legal citations. The Tax Court was not amused. He lost his case. This was a first for the Tax Court, but other courts have fined attorneys who submitted fake legal research generated by AI.

Tax questions are particularly difficult for AI to answer correctly because tax law is complex and constantly changing. If you use AI for research,

always instruct it to provide a citation to primary authority for every legal claim, and check that reference yourself.

Many courts are now requiring attorneys to disclose whether they used AI in court filings and to certify that a human has independently reviewed any AI-generated document.

The IRS has recently advised its employees to avoid becoming overly reliant on AI tools. It says they should use those tools to assist and augment their work, not replace their own critical thinking and judgment. This is good advice for everyone.

HSAs After Death: What You Need to Know

Health Savings Accounts (HSAs) are a great way to save money.

Unlike any other tax-advantaged account, they provide a triple tax benefit:

1. Contributions are tax-deductible.
2. Monies inside the HSA grow tax-free.
3. Withdrawals are tax-free if used for medical expenses.

Withdrawals after age 65, if not used for medical expenses, are subject to regular income taxes.

Some wealth advisors counsel HSA owners to treat their accounts like a super IRA—to maximize their contributions and make few or no withdrawals for medical expenses. By the time they retire, they could have a substantial amount saved in their accounts. They can withdraw the money tax-free to pay medical expenses, or withdraw it for non-medical expenses and pay regular income tax. But HSA owners need to understand that after they die, the tax code treats HSAs very differently from IRAs or 401(k)s.

If your spouse is your HSA beneficiary (as is normally the case for married people), the account will automatically go to your spouse upon your death, with no taxes due. Your HSA becomes your surviving spouse's HSA.

If you don't have a spouse as your beneficiary, your HSA automatically ends on the date you die.

Your non-spouse beneficiary—whether a child or someone else—will receive the funds and have to pay regular income tax on them that year. This is very different from the tax treatment for inherited IRAs or regular 401(k)s; non-spouse IRA and 401(k) beneficiaries have 10 years to withdraw all the money from the account and pay tax on it.

Sooner or later, every HSA will have a non-spouse beneficiary, whether because the HSA's owner never married, they got divorced, or their spouse predeceased them. The HSA is generally not the best vehicle for passing your wealth to the next generation.

If someone other than your spouse is your HSA beneficiary, you can reduce the tax hit they'll face when you die by making tax-free withdrawals from your account to reimburse yourself for past medical bills you paid. These include not just doctor bills but also dentist bills, vision care, and many other expenses.

It doesn't matter how old these bills are as long as you paid them after you established your HSA and didn't deduct them on your taxes. However, you

must have proper documentation for them. You can take such reimbursements anytime, but it is definitely something to consider if you become seriously ill and don't expect to live much longer.

All HSA owners should get in the habit of keeping receipts for their medical expenses. There are HSA expense-tracking apps that can make it relatively easy to maintain this documentation.

Don't Make This Costly Portability Election Mistake

The One Big Beautiful Bill Act (OBBBA) permanently increased the federal estate and gift tax exemption to a whopping $15 million per person for 2026 and later. You can give away while alive and/or bequeath at death this much money or property free of federal estate and gift tax.

If you're married, you and your spouse each get a $15 million exemption. Thus, your combined estate and gift tax exemption is $30 million for 2026 (it's adjusted for inflation each year).

But married couples don't automatically get the combined exemption of up to $30 million. Rather, when one spouse dies, the executor of their estate must file an estate tax return, even if it isn't otherwise required, and make a "portability election"—that is, they must direct the IRS to "port" (transfer) the deceased spouse's unused exemption to the living spouse.

A recent Tax Court case shows that making a portability election can be fraught with risk.

To make filing an estate tax return solely to elect portability as simple as possible, the IRS allows the executor to use a simplified reporting procedure and provide a single estimate of the entire estate's value instead of providing fair market values of all the estate's assets.

Key point. The executor can use simplified reporting only if the entire estate is left to the surviving spouse and/or to charity.

The Tax Court (in *Estate of Rowland*) recently held that the executor improperly used simplified reporting where a deceased spouse left property in trust to grandchildren. As a result, the court disallowed the executor's portability election, and the surviving spouse lost the deceased spouse's $3.7 million unused estate tax exemption, resulting in $1.5 million in extra estate tax due when the surviving spouse died.

This case is a wake-up call to all married couples and their estate planners. Portability offers the simplest planning strategy to maximize the couple's combined exclusion amount. But the executor of the deceased spouse's estate must follow the proper reporting procedures to make a valid portability election.

Executor instructions for a portability election are now especially important after *Rowland*, to ensure that portability is not lost entirely due to inadequate estate return preparation.