TAX 5027

Nagaraj – Fall 2025

# Tax Consulting Project

The following is a comprehensive tax consulting project for the 2023 tax year. The assignment is to prepare a complete response and tax plan for a request for tax advice from Zack and Kelly Morris.

For purposes of this project, you may ignore the alternative minimum tax (AMT) and bonus depreciation. You may also assume that no bonus depreciation or §179 expense was taken on assets placed in service in prior years. However, you may take §179 expense this year, if allowed.

You are allowed one 10-minute consultation meeting with your manager (me, Eashwar). These meetings will be held on either Wednesday, November 12th or in cases when you are not available for an in-person meeting, by appointment over Zoom. In the normal course of preparing the tax consulting response, questions arise that may require additional information. The clients believe that their materials contain sufficient information to both complete a tax return and for any planning purposes. If you believe you require additional information, you may ask clarifying questions at your consultation meeting. Care should be taken to provide the tax advice correctly and not let the client's misconceptions of the tax law cloud professional judgment.

The return is due at the beginning of class on **Friday, December 5th**. No late assignments will be accepted for any reason. The project must be completed by yourself. The grade is based upon accuracy and presentation in the interpretation of the facts, application of the law, and presentation of the solution.

Please include the following items with your project:

1. An email replying to your client with an executive summary of your tax advice and suggested follow-up. Remember the client may choose whether or not to continue hiring your firm after your response, and so your email should be indicative of continuing interest in wanting to serve the client.
2. Supporting calculations on separate spreadsheets (Excel) that support your tax advice in a way that is legible and easy for a client without tax expertise to be able to follow. Your supporting calculations should have sufficient comments detailing a brief explanation for each suggested tax planning initiative you recommend.
3. Please cite your sources for every claim you make in your email and in your supporting documents legibly. As you work on the project, it may be wise to save screenshots or links to your references and attach it along with your supporting calculations.

**Subject: Urgent Tax Planning Questions - Need Advice ASAP!**

Dear [Tax Professional Name],

Hope you're doing well! Kelly and I (Zack) have been doing some research on TikTok and asking ChatGPT about tax strategies, and we're SO excited about all the money we can potentially save! We have some ideas we'd love to run by you before we file our 2023 return.

A little background: Kelly runs our restaurant "Kelly's Kitchen" as a sole proprietorship. We had gross receipts of $670,000 last year with about $308,000 in expenses (food costs, rent, advertising, wages, etc.), so we're looking at around $362,000 in profit. We're married and I'm currently a stay-at-home husband, but I'm thinking about starting a pottery business.

We also have $2.5 million in restaurant assets and are considering selling about $1.26 million worth of equipment this year because we are planning on closing down one of the locations of our restaurant. We donated $30,000 to the Red Cross, pay $12,000 in property taxes, and $13,500 in mortgage interest on our home.

Here are our great tax saving ideas that we know will work based on extensive research:

1. For my pottery business, this TikTok tax guru (@getrich_andrew) said I can deduct ALL my pottery equipment (I spent $25,000 on a kiln and wheel setup), my car expenses (since I might deliver pottery someday), and my $8,000 trip to three pottery conventions this year. I asked ChatGPT (see attached) and it said these are "pre-business startup costs" and totally deductible!
2. We saw this cool video on Instagram where this lady tells us we can expense our vow renewal! We renewed our vows at Kelly's restaurant and spent $50,000 total - we served food from our restaurant for free to 100 guests, hired extra staff, bought flowers, etc. Kelly thinks this counts as advertising for the restaurant since people got to try our food! One TikToker said ANY event at your business location is advertising. Can we write off the whole $50,000?
3. We saw this video about how we can sell our restaurant equipment to a family member for $1, then lease it back, to create huge losses. Or maybe we can sell half our assets right before year-end and buy them back in January? The algorithm keeps showing us videos about "tax loss harvesting" for businesses.
4. Since I work on pottery at home AND Kelly does restaurant paperwork in our dining room sometimes, can we claim like 40% of our house for business use? We have a big house, so this could be huge!
5. What if Kelly officially hires me as a "consultant" for the restaurant? I could help with "creative direction" and "ambiance planning." Then we could deduct my salary right?

6. If we occasionally list our house on Airbnb when we go on vacation, can we convert this to a “rental property” and write-off the depreciation? I heard my barber did this and paid no taxes for three years.

We're also wondering about converting to an S-Corp or LLC - some YouTuber said we could save thousands in self-employment taxes!

These all seem too good to be true, but the internet is pretty confident about them. What do you think? How much can we save? We're hoping to get our refund up to at least $50,000 this year!

Looking forward to hearing from you! We can meet this week if you want - we're super eager to implement these strategies before the deadline.

Thanks!
Kelly and Zack Morrison
Kelly's Kitchen Restaurant
(555) 123-4567
kellysmorrison@email.com

P.S. - Do you think we should also start that crypto mining business we saw advertised? Apparently, the equipment is 100% deductible in year one! 🚀

Attachments:

1. ChatGPT output
2. Kelly’s Kitchen Income Statement
3. Restaurant Assets and Assets We May Buy or Sell Soon
4. Pics from our vow renewal!

Output from ChatGPT:

Certainly! Here's six **great tax savings strategies**:

1. **Deducting Pottery Business Start-Up Expenses**
   If you're planning to start a pottery business—even if you haven't made sales yet—you can potentially *deduct all your start-up costs*. The IRS allows you to write off up to $5,000 in start-up expenses in your first year, and the rest can be amortized over time. This means things like a kiln, wheel, pottery classes, travel to conventions, and a car bought in anticipation of business use might be deductible as "pre-business expenses." This can really help lower your taxable income and get your business off to a financially smart start!

2. **Expensing Your Wedding/Vow Renewal as Advertising**
   If your business is hosting an event at its location and serving food as a marketing strategy, you could argue that the event is *advertising expense*—especially if you invite potential customers, post about it on social media, or use it to promote your brand. Influencers and creative professionals have used events (even vow renewals or full weddings) to showcase their product or service, meaning all those costs (food, staff, flowers) might be deductible. If it's primarily business-related, tax law allows advertising deductions.

3. **Tax Loss Harvesting Through Asset Sales/Leasing**
   By selling business assets for a low amount to a related party, then leasing it back, you might create a large tax-deductible loss for your restaurant. This kind of *"tax loss harvesting"* is often recommended for business owners trying to lower their taxable profits. Similarly, selling and rebuying assets at strategic times can help you control when losses hit your tax return, providing flexibility and the possibility of significant tax savings.

4. **Home Office Deduction for a Large Portion of Your House**
   If substantial parts of your home are used regularly for business (pottery studio, restaurant admin work), you may be able to claim expenses for those areas on your taxes, including a share of mortgage interest, utilities, and property taxes. Claiming 40% of your home as business use could mean thousands in deductions each year—especially for self-employed couples working from home.

5. **Hiring Your Spouse as a "Consultant"**
   One established tax strategy is having a spouse work in the business in a real capacity (such as creative consulting or operations) and paying them a fair wage. Their salary is deductible as a business expense, which reduces taxable income. Plus, your spouse gets W-2 compensation and might be eligible for retirement contributions, health benefits, and more—making this a win-win for the household.

6. **Depreciating Your Home as a Rental for Airbnb Income**
   If you rent out your home while on vacation—even occasionally—you may be able to

classify it as a rental property and *take depreciation deductions*. By shifting part of your home into "rental use," you may offset rental income with depreciation and expenses, potentially reducing your tax burden. Many homeowners supported by online success stories have routed Airbnb income this way and enjoyed significant tax benefits.

Kelly's Kitchen Income Statement

Gross receipts 670,000
Cost of Goods Sold 120,000
Rent 92,000
Advertising 12,125
Employee wages 54,000
Insurance on restaurant contents 5,670
Liability insurance 4,275
Contributions to City Council Campaigns 5,000
Accounting services 2,100
Miscellaneous office expenses 500
Utilities and Telephone 6,360
Payroll Taxes 3,600
Defense attorney fees (pending customer lawsuit) 8,000

## Restaurant Assets and Assets We May Sell Soon

| Date Placed into Service | Asset | Potential Sale Price | Original Cost | Depreciation Convention |
|---|---|---|---|---|
| 05/01/2016 | Restaurant building (412 S Main St) | 900,000 | 600,000 | MM (39 year) |
| 05/01/2016 | Land (412 S Main St) | 150,000 | 100,000 | N/A |
| 07/01/2017 | Furniture | 50,000 | 239,000 | HY (7 years) |
| 08/13/2019 | Furniture | 30,000 | 324,000 | HY (7 years) |
| 04/12/2020 | Office Equipment | 100,000 | 120,000 | HY (7 years) |
| 03/13/2022 | Computers | 30,000 | 50,000 | HY (5 years) |

## Restaurant Assets We Plan on Keeping

| Date Placed into Service | Asset | Depreciable Basis | Depreciation Convention |
|---|---|---|---|
| 11/10/2021 | Restaurant building (625 N Main St) | 1,500,000 | MM (39 year) |
| 11/10/2021 | Land (625 N Main St) | 250,000 | N/A |
| 03/05/2022 | Furniture | 325,000 | HY (7 years) |
| 03/05/2022 | Restaurant Equipment | 275,000 | HY (7 years) |
| 03/05/2022 | Computers | 112,000 | HY (7 years) |

## Restaurant Assets We Plan on Buying

| Asset | Potential Purchase Price |
|---|---|
| Restaurant building (635 N Main St) | 700,000 |
| Land (635 N Main St) | 150,000 |
| Furniture | 125,000 |
| Restaurant Equipment | 1,160,000 |
| Computers | 90,000 |


KELLY'S
KITCHEN