

# tax tips for businesspeople



**T**he major objective for most people in business is to maximize profits. Cutting your taxes will help you achieve that goal. Review these tax tips; then contact us for assistance in identifying and implementing the best strategies for you.

**1 Choose your legal form of doing business carefully.** The tax and nontax consequences of the form you select are significant. The basic forms of operation from which to choose include sole proprietorship, partnership, corporation, or limited liability company. Seek professional assistance before deciding, and review your chosen business form from time to time to see if it's still appropriate.

**2 Consider "Section 1244" stock for a new business.** If you're starting a business and choose to operate as a corporation, investigate the advantages of Section 1244 stock. There are requirements that must be met, but if your stock qualifies and your business later fails, you can deduct up to \$50,000 of the loss against ordinary income each year (\$100,000 on a joint return). Without the Section 1244 benefit, the entire loss would be subject to the capital loss limitations.

**3 Incorporate and elect S status.** If your sole proprietorship or partnership is producing a net profit in excess of a reasonable compensation for your time, you could save money by operating as an S corporation. You're required to take a reasonable salary for the work you do but no more than that. With an S corporation, the salary you take will be subject to both income and payroll taxes. The profits above that amount are subject to income tax but not payroll taxes.



**4 If you operate in corporate form, keep accurate and thorough minutes** for the corporation. Minutes should document transfer of funds or assets into or out of the corporation, officers' salaries, shareholder dividends, officer and employee benefits, and related party transactions that might be scrutinized by the IRS.

**5 If your business is incorporated,** it is often a good idea for you to personally own the business real estate and lease it to your corporation. There are a number of tax and nontax concerns relating to real estate ownership. See us before you acquire new business property or before you change the ownership of property you already have.

**6 Consider using the cash method** of accounting if you meet the qualifications. Under the cash method, you generally report income to the IRS in the year you receive payment from customers. Under the accrual method, you report income when a sale is made to a customer regardless of when the bill is paid. Most business owners prefer the simpler cash method.

**7 Hire your children to work in your business.** Wages paid will be deductible by your company and taxable to the family member. Your child's earnings will probably fall in a lower tax bracket than yours. Payroll taxes apply to such wages; however, if your business is a proprietorship or family partnership, they do not apply to wages paid to your children under 18. Compensation paid has to be reasonable for the services performed.

**8 Never use the Internal Revenue Service as your banker.** When cash flow is tight, you may be tempted to pay your suppliers first and payroll taxes to the IRS last. The IRS will take steps to minimize the liability as quickly as possible. Pay the IRS first. If you absolutely cannot, contact your local IRS office before they contact you.

**9 Keep good records** for all business travel, meal, and entertainment expenses. Travel that you do in conjunction with your business is deductible, but business meal and entertainment expenses are generally only partially deductible.

**10 Review your employee benefits package.** Fringe benefits can help you attract and retain good employees and cut your taxes too.

**11 Take a write-off for business equipment.** Most business equipment is depreciated over five or seven years. However, small businesses are allowed to expense a certain amount of equipment costs in the year of purchase.

**12 Don't subject yourself to tax penalties** by misclassifying an employee as an independent contractor. The IRS is aware that employers prefer to treat workers as independent contractors to avoid paying fringe benefits and payroll taxes. If you're not absolutely sure how to treat a given worker, contact us.

**13 If you conduct business from your home,** become familiar with the rules for home office deductions. Accurate records may preserve your deductions.

**14 Don't miss business tax credits** that are still available. Congress often uses tax credits to encourage certain activities. Regularly check for credits that could apply to your business.

**15 Consider establishing a retirement plan** to cut your current tax bill and provide retirement income. A plan must cover your employees too.

**16 Keep repairs separate.** Ordinary repairs and maintenance on business equipment and buildings are deductible business expenses. Improvements which materially add to the value of the property or significantly prolong its useful life must be depreciated over a period of years. To avoid losing tax deductions for repairs and maintenance, make major improvements completely apart from repairs and maintenance.



**17 Review your corporate income** before year-end. If you operate your business as a personal service corporation (a tax definition that applies to taxpayers performing services in the fields of health, law, engineering, architecture, accounting, actuarial science, performing arts,

or consulting), be aware that such corporations pay a flat 35% tax on all taxable income. Compare this rate with individual tax rates before deciding whether to pay out all corporate income as salaries or bonuses.

**18 If you're the only employee in your business,** look into an individual 401(k) plan. These plans offer higher contribution limits than other retirement plans.

**19 Don't overlook an IRA** if you qualify for one. Compare the traditional IRA and the Roth IRA, and choose what's best for your situation. A traditional IRA gives you a current tax deduction for your contribution and tax-deferred growth. A Roth contribution is not tax-deductible, but qualified withdrawals are tax-free.

**20 Consider a tax-deferred exchange** if you plan to sell a piece of business property and replace it with other business or investment property. On a qualified exchange, current tax liability is postponed until you dispose of the new property.

**21 Avoid the alternative minimum tax.** If it cannot be avoided, you may be able to use it to your advantage in a given year. But you must know where you stand before year-end and give yourself time to execute tax-saving strategies.

**22 Use your tax advisor wisely.** Please check proposed transactions with us before you complete them so they can be structured to minimize taxes.

*The information in this brochure is of a general nature and should not be acted upon without further details and/or professional assistance. To identify and implement the tax strategies best suited to your situation, please contact us.*



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