

It's your business

taxes



As a business manager, you are required to wear many hats, but your major responsibility is to keep the business profitable. One way to improve your overall performance is by reducing the income tax you pay.

Here are a few simple tax strategies that are available to most businesses.

■ Give careful consideration to the legal form of your business. Both the tax and nontax consequences can be significant. The basic forms of business include sole proprietorship, partnership, corporation, or limited liability company. We can assist you and your attorney in determining the best form for your business.

■ 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 and your attorney before you acquire new business property or before you change the ownership of property you already have.

■ Consider a retirement plan for your business. A Keogh (H.R.10) plan is a retirement plan for self-employed individuals and their employees. Keogh contributions are tax-deductible. You may have a Keogh even if you can't make tax-deductible contributions to an individual retirement account (IRA).

■ Perhaps you would rather have a SEP or a SIMPLE plan instead of a Keogh. Some small businesses find pension and profit-sharing plans and even Keogh plans too complicated and costly to set up and administer.

A SEP (Simplified Employee Pension Plan) or SIMPLE (Savings Incentive Match Plans for Employees) may suit you better. Because of their relative simplicity, they can be good choices for the very small business.

■ You are allowed to deduct the entire cost of certain depreciable equipment in the year it is purchased. Most business equipment is depreciated over five or seven years. However, small businesses are allowed this Section 179 deduction each year, with certain dollar limits. If your total equipment purchases exceed a certain amount for the year, the expensing option phases out.

The deduction is also limited to the amount of your taxable income for the year (business income, salary, and wages).

■ Avoid being penalized for underpaying your taxes. Self-employed individuals generally are required to pay taxes through quarterly estimates which are due on April 15, June 15, September 15, and January 15 of the following year. Late or inadequate payments mean that you will be assessed penalty and interest charges in addition to your regular tax liability. You are required to make estimated payments even if it is your first year in a new business.

■ Hire your children to work in your business. The wages paid will be deductible by the company and taxable to the child, probably at a lower tax rate than yours. Keep in mind that the amount you pay your child has to be reasonable for the services performed.

You can compound the benefits of hiring your child by having him or her contribute to an IRA. Use a Roth IRA, and your child can accumulate a sizable tax-free retirement nest egg.

Understand the difference between tax credits and tax deductions. Tax deductions reduce the amount of income subject to taxation. Tax credits give you a dollar-for-dollar reduction of your tax liability. Congress often uses tax credits to encourage certain activities. Regularly investigate those credits that might be available to cut the taxes your business pays.

Don't subject yourself to tax penalties by misclassifying an employee as an independent contractor. The IRS is aware that employers prefer to treat some workers as independent contractors to avoid paying payroll taxes and fringe benefits. Some types of businesses are more closely watched by the IRS than others. If you're not absolutely sure how to classify a worker, please contact us.

Consider a tax-deferred exchange of property. This is a tax planning technique which should be considered by any business that is relocating or disposing of property. Often referred to as a "tax-free exchange," the tax-deferred exchange allows you to exchange certain business or investment property for other "like-kind" business or investment property and pay no income taxes currently. Your tax liability is deferred until you later dispose of the property for which you traded. Exchanges require careful planning and professional assistance.

Never try to use the IRS as your banker. When cash flow is tight, you may be tempted to pay your suppliers first and your payroll taxes last. The IRS will take steps to minimize the liability as quickly as possible. They also have a powerful weapon available to collect such taxes. Whether or not you own the company, you could be determined to be a "responsible person." This means that the IRS can hold you personally liable for 100% of any payroll tax deficiency.

Deduct as much of your family health insurance premiums as the law allows. You may be able to deduct 100% of the cost of medical, dental, and long-term care insurance for you, your spouse, and your dependents. To qualify, you must have a profit from self-employment or wages from an S corporation in which you own more than 2% of the stock.

If you conduct some or all of your business from your home, be aware of the home office deduction. Generally, a portion of the home must be used exclusively and regularly for business in order to allow a deduction as a home office.

A home office can qualify as a "principal place of business" even when it is just used by the taxpayer for administrative or management activities of the business, as long as there is no other fixed location to conduct these activities.

The best tax planning is done before the fact. It is difficult, if not impossible, to plan for the best tax treatment when the transaction is already completed. Call us while you are still in the thinking stage of any major financial move. We are here to assist you.



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