BUSINESS TAXES

2020 TAX GUIDE

ISSUE 5 VOLUME 3

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7 SECRETS TO HELP YOUR BUSINESS PAY LESS AND KEEP MORE $$$

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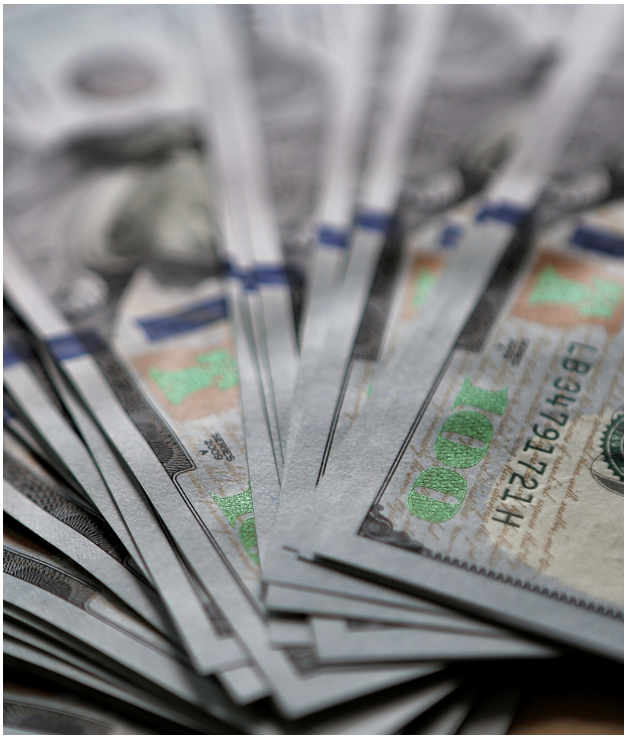
How to Save Thousands in Business Taxes:

7 Secrets to Help Your Business Pay Less and Keep More

Oh no! It's tax time again! That probably means you are scrambling to meet with your seasonal accountant to file your tax return before the due date. And with the new tax law, tax time just got a little more interesting. Let's face it. Proper tax planning and working with a tax expert is the only true way to realistically lessen your tax burden or determine your tax liability, if any. But who has time for that now. Depending on your income, it is possible to save thousands in taxes by employing the right strategies. Yet, many business owners aren't sure what to do. These secrets will help your business pay less in taxes this year.



"Skip entertainment. "

Secret #1: Defer Income

Deferring income means pushing income into the following year. To properly defer income, you shouldn't bill the client until late December so that you likely won't receive the income until after January 1. This does not mean receiving a check or cash and choosing not to deposit it until January 1. If you have a right to the income and use of it and just choose not to deposit it, then that could get you in hot water.

Secret #2: Accelerate expenses

To accelerate expenses means to make business purchases or pay bills this year instead of next year. So, you're speeding up your expenses to take a bigger deduction in the current year. Let's say you've been eyeing that new desk for your office or a new printer and was planning to purchase it after the new year. With expense acceleration you can buy it now and take a deduction for it on your taxes this year. The rule of thumb is only buy "stuff" (ordinary and necessary) you need. Don't spend $500 to save $50 in taxes. Deductions are not dollar for dollar and may only fractionally reduce your tax liability. Go ahead and pay your hardworking employees a bonus – that counts. Pay all bills due before the end of the year. Payments for rent, insurance and utilities related to the business can be included in the year paid.

Secret #3: Skip entertainment

Under the new tax law, entertainment expenses are no longer deductible. If you've already purchased tickets to a play or football game for your customers, then count that as goodwill. Unless your tax professional will reclassify those transactions as marketing (highly unlikely), then it's best to save those funds to pay taxes or go back and read Secret #2. Generally, qualified meals are still 50% deductible. There just shouldn't be any entertainment after dinner. Now, I bet you're wondering, "How does this secret help me save in taxes?" Well, you probably were counting on that deduction when you spent the money on entertainment. So, since you now know it's not deductible, you can spend those funds where you will get a legitimate deduction and stop wasting money.

Secret #4: Hire children and/or spouse

Did you know there is a way to pay for your child's first car, college tuition or wedding while taking a deduction for it in your business? I bet you're screaming HOW! Hire your child. You can reduce your tax liability by hiring family members to carry out work in your business. Pay your children and spouse to perform assigned duties. This way you can shift from higher tax rates to lower ones. Your children will be able to save any money you pay them to possibly spend in the future on any number of things like a new car. Putting your spouse on payroll may be a little trickier and this strategy is best used for retirement planning purposes. Of course, there are strict rules you must follow to avoid red flags by the IRS no matter who you hire.

Secret #5: Change legal structure or tax election

Not all business structures are created equal. Odds are you are organized or taxed as one of the following:

- Corporation (C-corp)
- Corporation (S-corp)
- Limited Liability Company
- Partnership
- Single Member LLC (SMLLC)

Each has advantages and disadvantages from a tax standpoint. Changing from one structure to another could save you thousands in taxes in any given tax year. Yet, doing a proper analysis on how a certain structure will affect your business is required. Don't go willy nilly and change structures because the tax rate is lower, or someone told you what they are doing. There are a number of variables that must be taken into account before you change structures. It's best to work with a tax professional to perform the analysis to make sure you are choosing the most beneficial structure for your business.

Secret #6: File cash basis

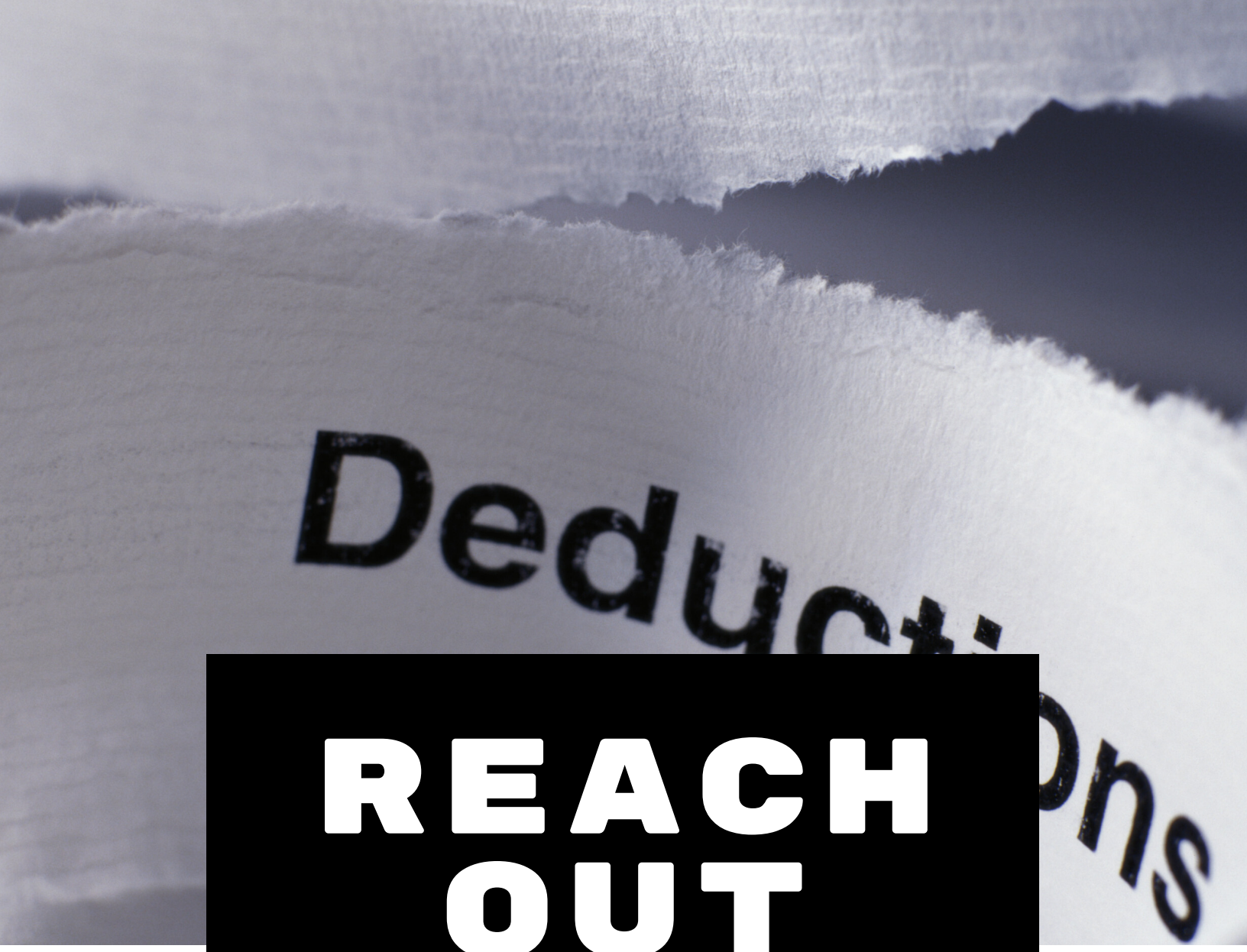
Choosing the method of accounting for your business to file taxes will largely determine how you are taxed. The three accounting methods are cash, accrual or other (usually hybrid). Most small businesses file taxes using the cash method of accounting. This means you report income when received and report expenses when paid. The cash method will usually produce the least amount of net income. No one wants to pay taxes on income that they are expecting to receive but we'd love to deduct expenses we haven't paid yet. Under the accrual method, you will report all income invoiced for the tax year whether you've been paid or not and you will deduct any expenses you were billed even if unpaid. Either of the methods could work out great one year and not so great the next. But no flip flopping. Once you file your first business tax return and choose your accounting method, it's not so easy to change. So, choose an accounting method and stick with it unless it makes sense to change.

Secret #7: Use the home office deduction

Taking the home office deduction is as simple as selecting a checkbox. Ok, maybe it's not that simple but the home office is often an overlooked deduction by many business owners. With a home office, you can deduct a percentage of your home expenses including rent and utilities. This percentage is based on the square footage of the office compared to the total square footage of the home. Both direct and indirect expenses qualify. However, the IRS recently changed the law to where you can take a safe harbor deduction without having to produce receipts. This means you get a flat deduction for claiming a home office on your tax return. It's only available if you're profitable and the home office must be exclusively used for the business that is taking the deduction. Second bedrooms used for when guests visit do not qualify.

Bonus Secret #8: Write it all off...sorta

Businesses can write off the full purchase price of qualifying equipment and/or software purchased or financed during the tax year. Under the new tax law, a business can deduct up to $1 million of qualified purchases. Qualified equipment can be that new cargo van for your delivery business or a used tractor for your farm. Phase-out limits apply if you spend over $2.5 million. The equipment and software must also have 50% or more business use. This is a great strategy to reduce your taxable income resulting in a lower tax liability.



REACH OUT

Call 770-500-5341 to schedule your **FREE** Tax Assessment. We have over 61 tax strategies that you could possibly benefit from. We can also help you implement any of the strategies listed in this article.

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