Tax Planning For Small Business Owners

Tax planning is the process of looking at various tax options in order to determine when, whether, and how to conduct business and personal transactions to reduce or eliminate tax liability.

Many small business owners ignore tax planning. They don't even think about their taxes until it's time to meet with their accountants, but tax planning is an ongoing process and good tax advice is a valuable commodity. It is to your benefit to review your income and expenses monthly and meet with your tax advisor quarterly to analyze how you can take full advantage of the provisions, credits and deductions that are legally available to you.

Although tax avoidance planning is legal, tax evasion - the reduction of tax through deceit, subterfuge, or concealment - is not. Frequently what sets tax evasion apart from tax avoidance is the IRS's finding that there was fraudulent intent on the part of the business owner. The following are four of the areas most commonly focused on by IRS examiners as pointing to possible fraud:

1. Failure to report substantial amounts of income such as a shareholder's failure to report dividends or a store owner's failure to report a portion of the daily business receipts.

2. Claims for fictitious or improper deductions on a return such as a sales representative's substantial overstatement of travel expenses or a taxpayer's claim of a large deduction for charitable contributions when no verification exists.

3. Accounting irregularities such as a business's failure to keep adequate records or a discrepancy between amounts reported on a corporation's return and amounts reported on its financial statements.

4. Improper allocation of income to a related taxpayer who is in a lower tax bracket such as where a corporation makes distributions to the controlling shareholder's children.

Tax Planning Strategies

Countless tax planning strategies are available to small business owners. Some are aimed at the owner's individual tax situation and some at the business itself, but regardless of how simple or how complex a tax strategy is, it will be based on structuring the strategy to accomplish one or more of these often overlapping goals:

- Reducing the amount of taxable income
- Lowering your tax rate
- Controlling the time when the tax must be paid
- Claiming any available tax credits
- Controlling the effects of the Alternative Minimum Tax
- Avoiding the most common tax planning mistakes

In order to plan effectively, you'll need to estimate your personal and business income for the next few years. This is necessary because many tax planning strategies will save tax dollars at one income level, but will create a larger tax bill at other income levels. You will want to avoid having the "right" tax plan made "wrong" by erroneous income projections. Once you know what your approximate income will be, you can take the next step: estimating your tax bracket.

The effort to come up with crystal-ball estimates may be difficult and by its very nature will be inexact. On the other hand, you should already be projecting your sales revenues, income, and cash flow for general business planning purposes. The better your estimates are, the better the odds that your tax planning efforts will succeed.

Maximizing Business Entertainment Expenses

Entertainment expenses are legitimate deductions that can lower your tax bill and save you money, provided you follow certain guidelines.

In order to qualify as a deduction, business must be discussed before, during, or after the meal and the surroundings must be conducive to a business discussion. For instance, a small, quiet restaurant would be an ideal location for a business dinner. A nightclub would not. Be careful of locations that include ongoing floor shows or other distracting events that inhibit business discussions. Prime distractions are theater locations, ski trips, golf courses, sports events, and hunting trips.

The IRS allows up to a 50% deduction on entertainment expenses, but you must keep good records and the business meal must be arranged with the purpose of conducting specific business. Bon appetite!

Important Business Automobile Deductions

If you use your car for business such as visiting clients or going to business meetings away from your regular workplace you may be able to take certain deductions for the cost of operating and maintaining your vehicle. You can deduct car expenses by taking either the standard mileage rate or using actual expenses.

The mileage reimbursement rates for 2012 are 55.5 cents a mile for business, 14 cents per charitable mile and 23 cents for moving and medical miles.

Whichever method you decide to use to take the deduction, always be sure to keep accurate records such as a mileage log and receipts. If you need assistance figuring out which method is best for your business, do not hesitate to contact us. Happy driving!

Increase Your Bottom Line When You Work At Home

The home office deduction is quite possibly one of the most difficult deductions ever to come around the block. Yet, there are so many tax advantages it becomes worth the navigational trouble. Here are a few common tips for home office deductions that can make tax season significantly less traumatic for those of you with a home office.

Try prominently displaying your home phone number and address on business cards, have business guests sign a guest log book when they visit your office, deduct long-distance phone charges, keep a time and work activity log, retain receipts and paid invoices. Keeping these receipts makes it so much easier to determine percentages of deductions later on in the year.

Section 179 expensing allows you to immediately deduct, rather than depreciate over time, up to $139,000, with a cap of $560,000, in 2012 worth of qualified business property that you purchase during the year. The key word is "purchase". Equipment can be new or used and includes certain software. All home office depreciable equipment meets the qualification. Also, if you purchase more than $139,000 in equipment, you can expense the first $139,000 then depreciate the rest. In addition, a "Bonus Depreciation" of 50 percent is allowed on qualified assets (new equipment only--no used equipment and no software) placed in service during 2012.

Some deductions can be taken whether or not you qualify for the home office deduction itself. Consider meeting with a tax professional to learn more about home office deductions.