



5 Business Tax Strategies to think about before year end.

### **1. Change the way your business is taxed**

I am sure when you started your business you probably put a lot of thought into how you were going to sell your services, products, etc. You probably spent days searching for the right location or stayed up late at night trying to decide on a logo or business name.

Selecting the proper tax structure was probably the last thing on your mind. Selecting the proper tax structure can save you tens of thousands of dollars over the life of a business. Every situation is different and there is not any one tax structure that is the best fit for everyone. Each business should be analyzed by a professional to determine which entity results in the best outcome based on the owner's needs.

Here at REH we can analyze your business and recommend a structure that best fits your needs. Whether it is a new business just getting started or a mature business that has evolved past its current structure. Contact us and we will help guide you through the process.

### **2. Purchase needed equipment**

If you are fortunate enough that your business is showing a good amount of profit, you may be looking for ways to reduce your tax burden before year end. One way to accomplish this is to purchase and place in service needed equipment before year end.

I have this discussion every year with clients who want to know "Should I buy something before year end?" Well, it depends. Understand first that a deduction only reduces your taxes by your effective tax rate. For example, if your effective tax rate is 20% and you buy a \$10,000 piece of equipment, your reduction in taxes owed would be \$2,000. It does not reduce your taxes by \$10,000.

I tell clients, "If you need the equipment, then yes buy it, if you don't then I do not recommend buying it". It simply does not make sense to spend \$10,000 for something you do not need just to save \$2,000 in taxes.

Purchasing equipment before year end can be a very complex decision. We assist our clients with making that decision by analyzing the purchase and the effect it will have on their taxes. This helps them make the decision of what to buy and when.

### **3. Hire your children**

For many small business owners, running a business is a family affair. Did you know

that hiring and paying your children could produce significant tax savings? Depending on the tax structure and the age of your child, you could pay them up to \$12,400 per year tax free!!!

This of course depends on certain factors such as your tax entity, and the age of your child. Our CPAs can analyze your situation and help you come up with a plan to implement this strategy if it makes sense for you and your business.

#### **4. Create a retirement plan**

One of the best ways to reduce your current year tax bill while also saving for the future is to establish a retirement plan. There are many options out there for small business owners to put away a little for retirement or a lot. There are some plans out there that can allow you to put away over \$100K per year!

We do not create or maintain retirement plans, but we can analyze your situation and help you determine which retirement plan suits you and your business best. We can even put you in touch with a financial advisor that will help you establish and implement the plan you decide on.

Retirement plans are not “one size fits all”. Careful analysis should be done to determine which plan best fits the needs of the business, the owners, and employees.

#### **5. Reimburse yourself for business expenses**

This piece of advice is primarily for S-Corp and C-Corp shareholders that work in the business. Too many times we see our owners pay or incur business expenses, but it never gets recognized on the tax return. The problem is that they pay for those expenses out of their personal bank accounts or credit cards and they never get reimbursed by the company.

Below are areas we see that owners are missing out on some significant tax savings by not creating an “Accountable Plan”.

Auto expenses – If you are driving your personal vehicle for business you can and should get reimbursed for mileage. Make sure and keep a mileage log and get a reimbursement from your business. There are apps out there that help you track your mileage. One popular app we have seen is MileIQ. Now remember, you cannot get reimbursed for “commuting”, which is travel between home and your work location. Also, you cannot pay for the vehicle expenses out of the business and also get reimbursed for mileage, that would be double dipping!!

Home Office Expenses – Schedule C filers can take a home office deduction. Unfortunately, owners of S-Corps and C-Corps do not get this deduction. One way to secure this deduction is to reimburse yourself for the costs incurred for the home office expenses. You will want to allocate your utilities, mortgage interest and other expenses based on the square footage of the office relative to the total square footage of the home. We can help you come up with an allocation percentage and provide you with the reimbursement forms for you to submit for reimbursement.

Creating and maintaining an accountable plan where you receive reimbursement from the corporation can yield significant tax savings. All tax situations are different and need to be analyzed by a qualified CPA. We can assist you in establishing your accountable plan and provide you with the documents and procedures to implement.

I really hope that these 5 tax strategies will help you in lowering your tax bill. As is always the case in taxes, it depends on your specific circumstances whether any of these strategies are a good fit for you and your business.

The CPAs at REH are well versed in these areas and are here to help you evaluate and implement the strategies that you are interested in. Please contact our office today if you would like to discuss how REH can assist you in realizing tax savings before year end.

Below is a link to our YouTube channel that has other really good content dealing with tax and business related issues. Subscribe to the channel to be notified of new videos we post.

[REH CPA YouTube Channel](#)

Thank you!

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