EXPEDIENT BOOKKEEPING & TAX SERVICES LLC

Tax Planning For Small Business Owners

Tax planning is a process of looking at various tax options in order to determine when, whether, and how to conduct business and personal transactions so that taxes are eliminated or considerably reduced.

Many small business owners ignore tax planning, and don't even think about their taxes until they're scheduled to meet with their accountant; but tax planning is an ongoing process, and good tax advice is a very valuable commodity. You should review your income and expenses monthly, and meet with your CPA or 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 some 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. A 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. A claim 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

There are countless tax planning strategies available to a small business owner. 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 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, the better the odds that your tax planning efforts will succeed.

Hidden within the labyrinthine course known as the Internal Revenue Code are valuable money-saving strategies overlooked or undiscovered by many business owners. At the same time there are misleading passages that have been the cause of millions of dollars mistakenly paid to the IRS. Dollars that should have remained in business owners pocket.

Alternative Ways to Save on Business Income Taxes

Maximizing Business Entertainment Expenses

Another interesting way to save on your taxes, that can be fun as well as rewarding to you and your business, is to deduct entertainment expenses. Entertainment expenses are great deductions to add to your taxes and can save you money, however there are some important guidelines to consider when including them on your return.

In order to qualify, business must be discussed before, during, or after any meal deducted. The surroundings must be conducive to business discussion. For instance, a small or quiet restaurant would be an ideal location for a business dinner. 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.

Starting in 1994, the IRS allows up to a 50% deduction on entertainment expenses. Good documentation of these expenses is required in order for the IRS to consider these deductions. Remember that the business meal must be arranged with the purpose of conducting specific business. Bon appetite!

Important Business Automobile Deductions

An automobile is quite an expense, especially for those of you who own more than one. The mileage reimbursement rates for 2010 are 50 cents for business, 14 cents for charitable and 16.5

cents for moving/medical miles. For 2009, the mileage reimbursements rates were 55 cents per business mile, 14 cents per charitable mile, and 24 cents per moving/medical mile.

Another common way to increase deductions is to include both cars (if you own more than one car) in your deductions. This is possible since the business miles driven determine business use. To figure business use, divide the business miles driven by the total miles driven. You can do this for each car driven for the business and can bring significant deductions.

This is simply a wonderful way to save, but remember: in order to be effective, a consistent mileage log should be kept. Consider meeting with a professional to determine the most efficient way of tracking mileage and other costs. 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 deduction allow you to immediately expense, rather than depreciate over time, up to $250,000, with a cap of $800,000, in 2010 worth of qualified business property that you purchase during the year. The key is "purchase" ...it can be new or used. All home office depreciable equipment meets the qualification. Also, if you purchase more than $250,000 in equipment, you can expense the first $250,000 then depreciate the rest.

Make sure that before you start deducting all of these items on your return, that you have qualified for the Home Office

Deduction. You should consider meeting with a tax professional for further Home Office Deduction advice.