Small Business Tax Planning Strategy

In today's world of ever-changing tax codes, small business owners are often left behind in terms of proper tax planning and methods of utilizing before-tax dollars for business expenses. As a CPA who represents both employers and employees, and prepares the corresponding tax returns, I have numerous opportunities to identify tax saving methods. There are a multitude of choices regarding non-taxable employee benefits that are available to self-employed individuals, as well as corporations, which are often overlooked due to the lack of good business advice or limited business knowledge of the owner.

Unreimbursed Business Expense

Many employees find that unreimbursed business expenses such as mileage, meals and entertainment and personal medical expenses cannot be itemized on their individual income tax form 1040 due to not meeting the minimum percentage requirement or that applying the standard deduction is more beneficial. Business owners should reimburse actual business expenses with before-tax dollars, thus incurring a valid business deduction and providing employees with an actual dollar-for-dollar reimbursement. Many taxpayers fail to realize that itemized unreimbursed business expenses are only worth the rate of the top income tax bracket that the taxpayer reaches.

Husband and Wife Joint Ownership

Closely-held corporation officers, in many cases husband and wife, are often both drawing compensation from the company. This results in an increase of payroll taxes, workers compensation and single business tax. Future social security and disability benefits can be limited due to both spouses drawing compensation, as opposed to having the entire salary being paid to the primary employee.

SEP Plan Availability

Simplified employee pension (SEP) plans are available as a means to defer before-tax dollars for future retirement, but more importantly as a tax-planning tool for the current year. Like an IRA contribution, self-employed individuals have until April 15th to establish and fund the plan, but unlike an IRA, can contribute the lesser amount of $30,000 or 15% of net self-employment earnings. Employees of the self-employed individuals qualify for the SEP plans if they have taxable wages in 3 of the last 5 years. For 1997, Congress adopted SIMPLE plans, which effectively eliminated SARSEP plans, and dramatically changed the rules regarding employee deferred arrangement funding.

There are many more available ways to reduce taxable earnings which continue to be overlooked by business owners. The new tax bill has many new provisions, including wholesale changes to the capital gains tax rate structure. My next article will address some of the major changes and attempt to highlight the more generic and practical tax code amendments.

As always, I welcome your ideas, comments and critique!