

TAX REDUCTION STRATEGIES

for small business owners



A NOTE OF CAUTION

Most business owners just want to get their net income to zero or spend all they have left over at the end of the year to have a 'tax deduction'. This is NOT always the best idea. You will deplete your cash and not have enough for continued working capital or paying yourself.

This strategy has some negative consequences:

- Difficulty in getting loans such as business loans, and personal loans (like mortgages), as your net income is considered in loan approval purposes
- Reduces social security payouts when you retire.

REMEMBER:

Your net income (profit) is everything left AFTER you pay all of your expenses and that is what you can actually pay yourself, or keep in the business.

Let me give you the top strategies I feel you can do NOW to start reducing your tax liability

#1 Make sure you are the right entity type

If you are a sole proprietor or single member LLC making over \$60,000 in net income (revenue - expenses), you will want to talk to your tax CPA into converting to a S-Corporation for tax purposes. I work with a great strategic tax CPA, so reach out to me at info@paicpapllc.com to get an intro!



#2 Contribute to a Self-Employed Retirement Plan or Uni-K (an individual 401k plan)

If you tax as a S-Corporation, you can have a financial advisor/brokerage firm set you up on a SEP IRA, which allows you to withhold contributions from your W2 paycheck and have a matching component from your business. This matching component is an expense on your company books. Different plans have different limits on contributions. Financial advisors will consult on this for free!



#3 Make your kids employees

This is not one widely talked about, but you can employ your children, and if they are under 18 years of age, their wages are fully exempt from Social Security, Medicare, and the Federal unemployment tax. If > 18, they will have to pay those taxes, but it still reduces your business taxable income.

The work has to be fully documented and valid. Federal child labor laws do not apply here if the child is working in a business solely owned by the parents.

As of 2022, the minimum salary subject to federal income tax is \$12,950 (so if you cap your child's salary at this, it is completely tax-free)



#4 Track Your Mileage

This is one of the biggest overlooked expenses when it comes to tax savings. If you do not have a personal vehicle you use, mileage is a great way to reduce your business expenses.

Any mileage above and beyond your normal commute. That means if you have a primary off-site workplace (office building), you can deduct any mileage for business you drive in excess of that normal commute. If you primarily work from home, you can deduct ALL of your mileage driven for business

Mileage rate for the second half of 2022 = 62.5 cents a mile

Watch in December 2022 for the 2023 rates released by the IRS.



#5 Purchase a big asset

Typically, business owners will purchase equipment, computers, or vehicles at the end of the year in order to take advantage of what is known as the Section 179 deduction. This is an IRS code that allows you to take 100% of the cost of the asset as a deduction in the tax year you purchased it.

Talk to your tax CPA about this when you are planning to buy a large asset, as some have IRS limitations and make you spread out the depreciation deduction.



#6 Pay expenses ahead

Sometimes business owners will pay expenses in December for the following January. This includes paying trade vendors for supplies, or rent and other bills that you receive in December for January.

This may be a good tactic if you have a large net income in the current year and may forecast a lower net income in the following year.



#7 Take the Home Office Deduction

If your primary workplace is your home, you are most likely able to take the home office deduction. However, you need to have a dedicated workspace at home that is not a room used for anything else.

There are two methods used:

1) Simplified Method- gives you a deduction of \$5 per square foot of your home that is used for business up to a max of \$1,500. This is the easiest method and does not require depreciation of your office space

2) Actual Expense Method- You can deduct a portion of rent, mortgage interest, repairs & maintenance, utilities, and insurance. This is a bit more complex.

The method you choose should be discussed with your tax CPA.



ABOUT OUR FOUNDER, NESHA PAI

After passing the CPA exam as a senior in college in 1993, I went on to work at the #1 public accounting firm in the world (Arthur Andersen). From there, I experienced Corporate America, being a stay at home mom, and then finally starting my own firm in 2011.

I realized my passion was with the entrepreneurial/small business sector and that it was a heavily underserved market.

I now serve small business owners through my firm, speaking engagements, and my podcast (Piece of the Pai).

My mission is to empower small business owners in the finance part of their life.

