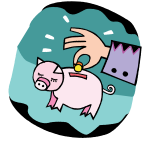


Tax-Saving Strategies for Owners of Small Businesses

On left: an article from Entrepreneur Rising, by David Meier (www.entrepreneurrising.com)

On right: additional notes by Michele A. Sweeten, CPA



The following is a discussion of each of the major opportunities to make your life tax-deductible as an entrepreneur:

◆ **Your home:** As a small-business owner, you may qualify to take a home office tax deduction. In order to qualify for the deduction, the use of your home office must be both "exclusive" and "regular." If you qualify, you may deduct certain other expenditures, such as depreciation and the indirect expenses of operating your home, on a pro-rata basis. Even if you fail to qualify for the home office deduction, you are still allowed to deduct other business expenses that you incur while operating your business out of your home.



The % of office to home square footage is applied to the following:

Interest
Taxes, (property)
Utilities (not home phone)
Repairs & maint.
Security
Insurance
Depreciation

◆ **Your car:** If you use your car in your business, you can deduct the costs of operating and maintaining your car. However, you can only deduct the portion of your car that pertains to business only. This is accomplished by pro-rating or allocating the total cost of operating and maintaining your car between deductible business use and non-deductible personal use. Business costs can be deducted by using either actual costs or the standard mileage rate.



You must choose actual in the year of purchase, and then you are locked in. If you choose the mileage route, the deduction is **\$.50/mile** in 2010. **Each method requires a mileage log be kept.**

◆ **Your equipment:** You can convert personal assets into business assets by contributing them to your business. You can do so by giving them to your business either in exchange for a loan document or as contributed capital. If you received a loan document, the business will repay you principal (the market value of the assets) plus interest on a periodic (generally monthly) payment schedule (called amortizing a loan). If you considered the assets to be a contribution of capital, this contributed capital can be used to substantiate your ownership position in your business.



Your assets are converted at **fair market value**, and depreciated by the business (or use Sec 179 deduction in year of conversion).

◆ **Your travel and entertainment:** Travel expenses are expenses you incur for your business while away from home. You are traveling away from home if both the following conditions are met: (1) your duties require you to be away from the general area of your "tax home" substantially longer than an ordinary day's work and (2) you need to get sleep or rest to meet the demands of your work while away from home. Entertainment expenses include the expenses associated with any activity generally considered to provide entertainment, amusement or recreation.



Limit these items to ordinary, necessary, and reasonable expenses. They should be directly related to or associated with the active conduct of business. Meals and entertainment will be limited to 50%. Per diem amounts are available in lieu of actual travel expenses.

◆ **Your retirement:** The purpose behind having your own personal retirement plan is to create dollars to fund your retirement. Tax law allows you to do so in ways that are tax-advantaged. You may qualify to participate in certain retirement plans that are available to small-business owners, depending on certain factors, such as your business's form of organization, other retirement plans in which you already participate, the dollar amount of your earned income and whether you are functioning as an employer (owner) or an employee of your business.



Look into SEP plans, in which the employer makes contributions to IRAs of employees; limited to 25% of earnings.

◆ **Your family:** As a small-business owner, you have an opportunity to hire your spouse, children and even your parents as a way of minimizing your family's tax burden. By shifting taxable business income to another family member, you can move dollars from higher tax rates to lower tax rates--creating real tax savings for you and your business.



Your child can earn up to \$5,700 in 2009 for services rendered without having to file their own return. Children over 18 must withhold FICA taxes.



◆ **Your self:** As a small-business owner, you are able to take advantage of tax-free owner benefits. These benefits are paid out of pre-tax dollars. This means that there are more of these dollars to spend, since no tax has been paid on these dollars. This allows you and your family to enjoy benefits that are paid by your business and that are also tax-deductible to the business--the best of both worlds.



Business **gifts** are deductible up to \$40 per recipient per year.
Employee **achievement awards** of \$400/award.
De minimus personal uses of business items not taxed.