

10 Most Expensive Tax Mistakes That Cost Business Owners Thousands

Miguel J. Rodriguez, CPA/PFS

Zena Kinzbrunner, CPA

1776 N Pine Island Road, Ste 216

Plantation, FL 33322

954-680-6114



RODRIGUEZ, KINZBRUNNER & COMPANY, LLP
Certified Public Accountants & Consultants

#1: Failing to Plan

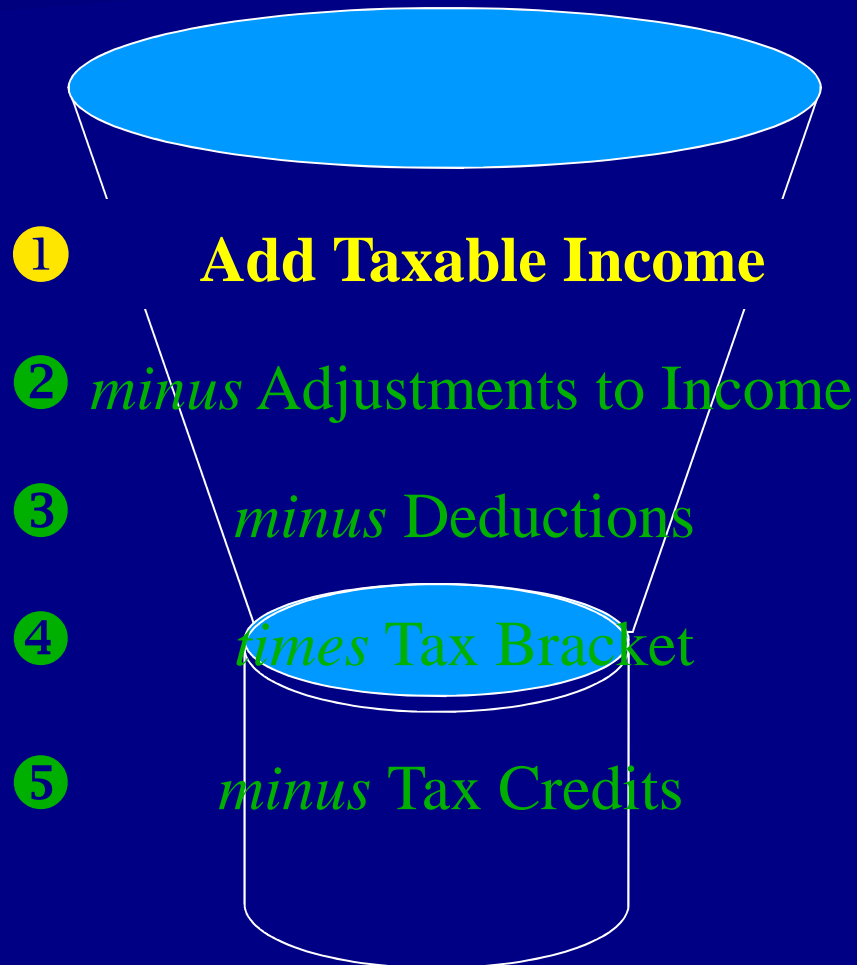
“There is nothing wrong with a strategy to avoid the payment of taxes. The Internal Revenue Code doesn’t prevent that.”

William H. Rehnquist

Why Tax Planning?

1. Key to financial *defense*
2. Guarantee results

Taxable Income



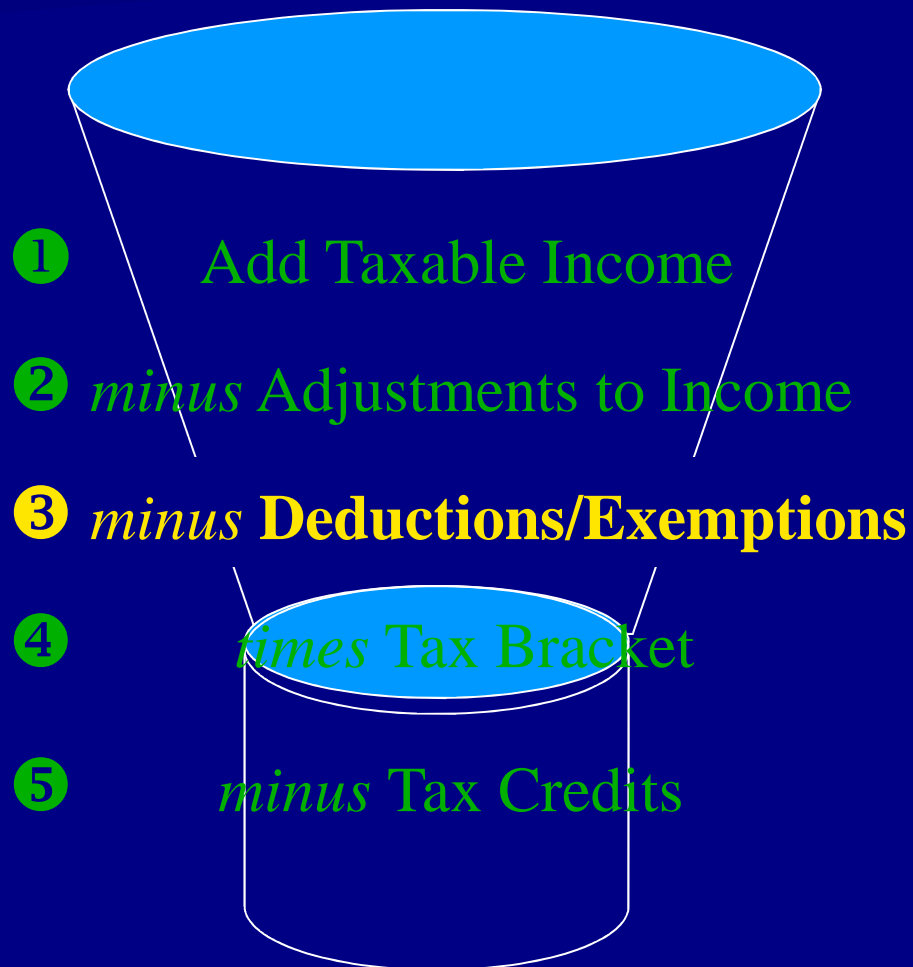
- Earned income
- Interest/dividends
- Capital gains
- Pension/IRA/Annuity
- Rent/royalty
- Alimony
- Gambling winnings
- Illegal income

Adjustments to Income



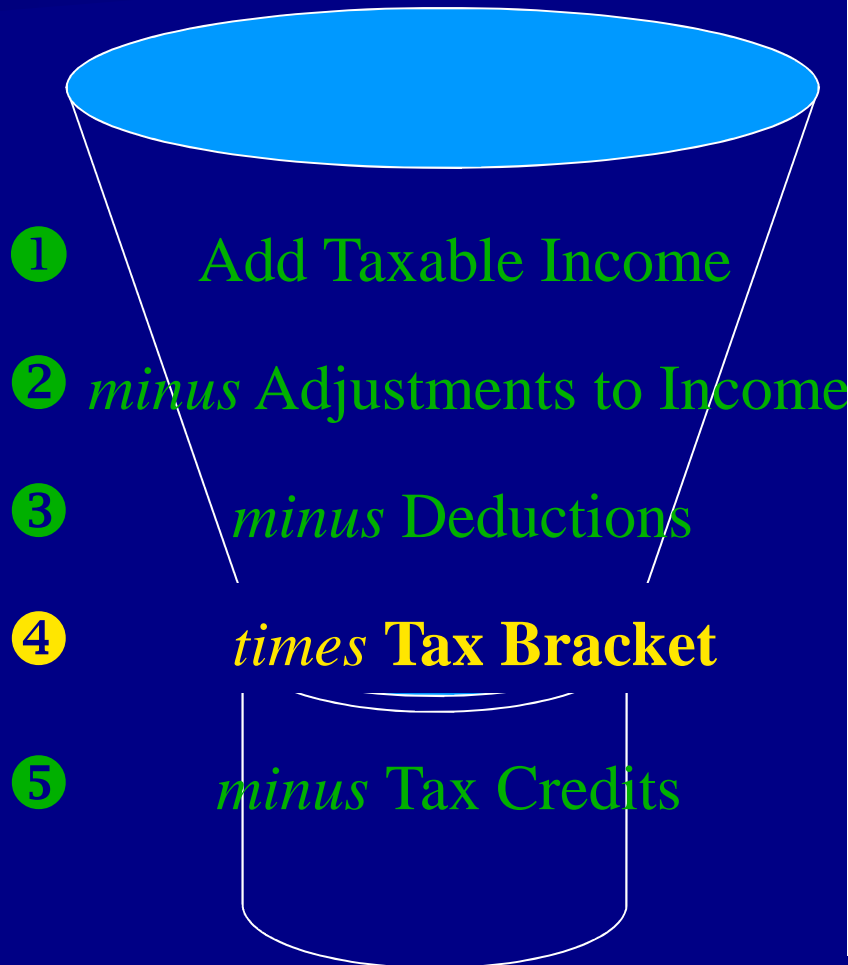
- IRA contributions
- Moving expenses
- ½ SE tax
- SE health insurance
- Retirement
- Alimony
- Student loan interest

Deductions/Exemptions



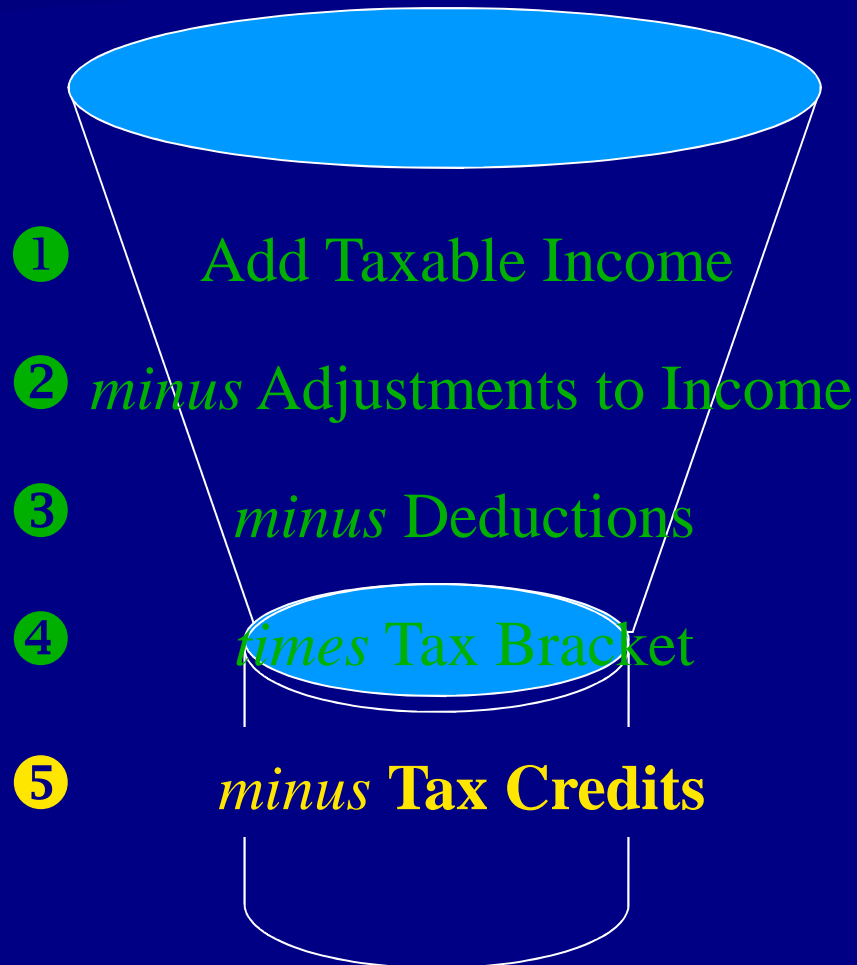
- Medical/dental
- State/local taxes
- Foreign taxes
- Interest
- Casualty/theft losses
- Charitable gifts
- Miscellaneous itemized deductions

Tax Brackets



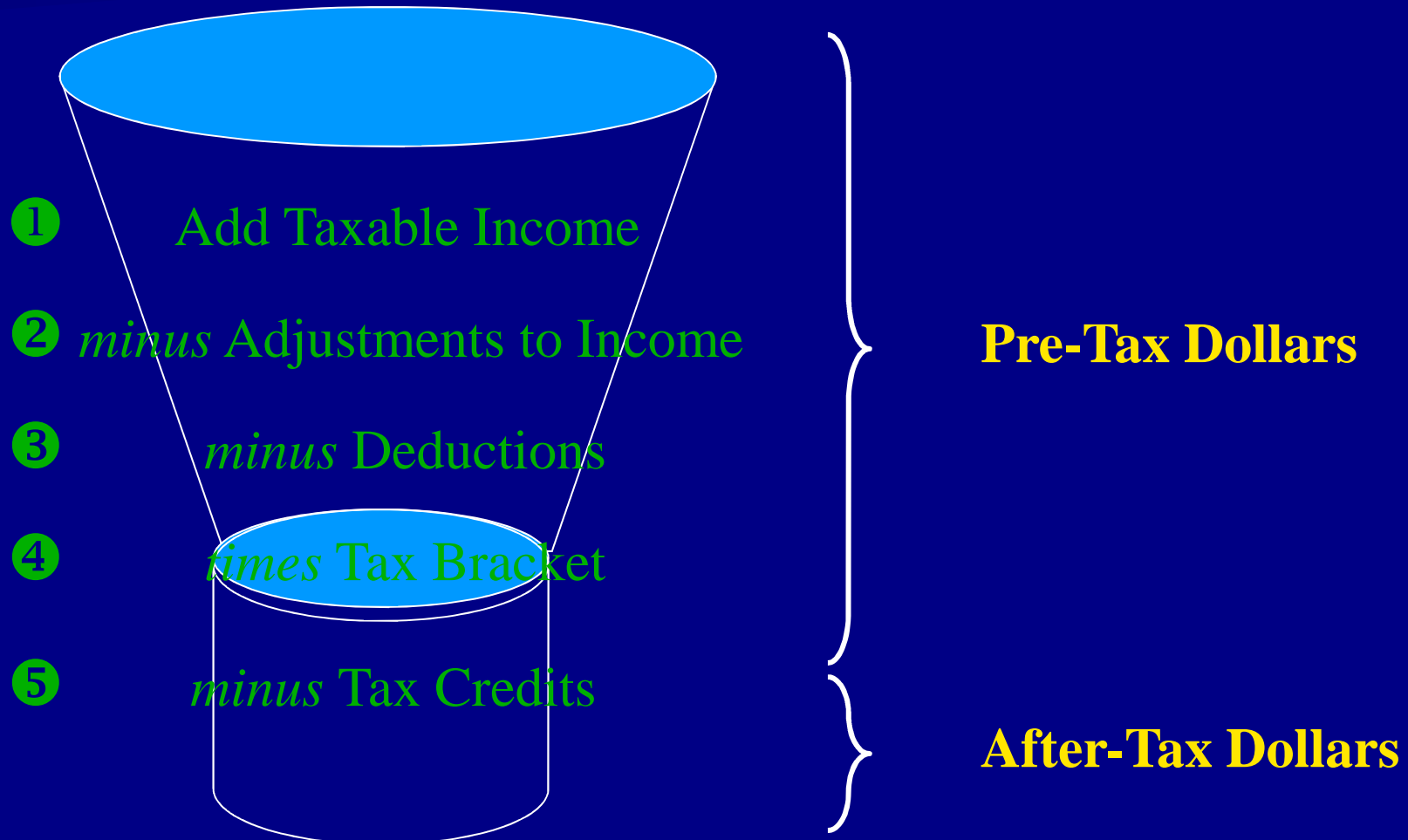
Rate	Single	HoH	Joint
10%	0	0	0
15%	8,701	12,401	17,401
25%	35,351	47,351	70,701
28%	85,651	122,301	142,701
33%	178,651	198,051	217,451
35%	388,351	388,351	388,351

Tax Credits



- Family credits
- Education credits
- Foreign tax
- General business
- Low-income housing
- Renovation

Two Kinds of Dollars



Keys to Cutting Tax

“You lose every time you spend after-tax dollars that could have been pre-tax dollars.”

1. Earn nontaxable income
2. Maximize deductions and credits
3. Shift income: later years, lower brackets

#2: Selecting the Wrong Business Entity for Your Financial Needs



C-Corp?

S-Corp?

Partnership?

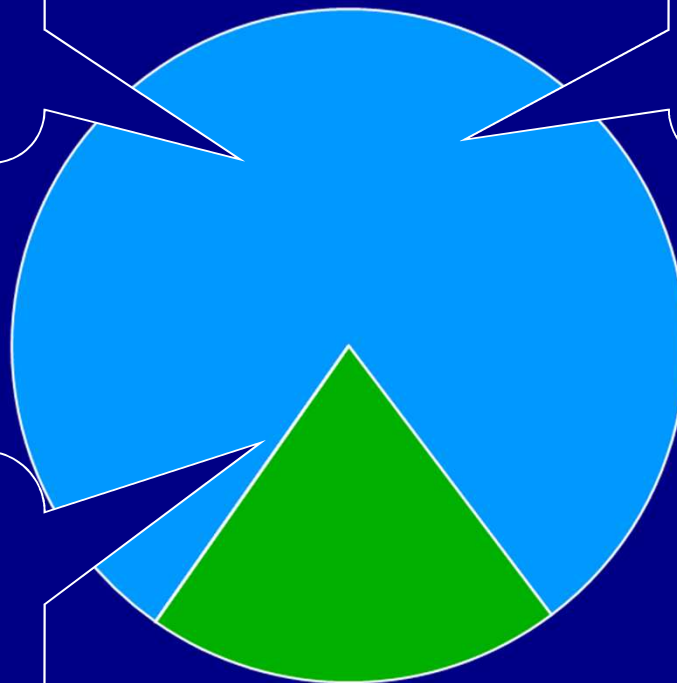
Sole Prop?

Sole Proprietorship

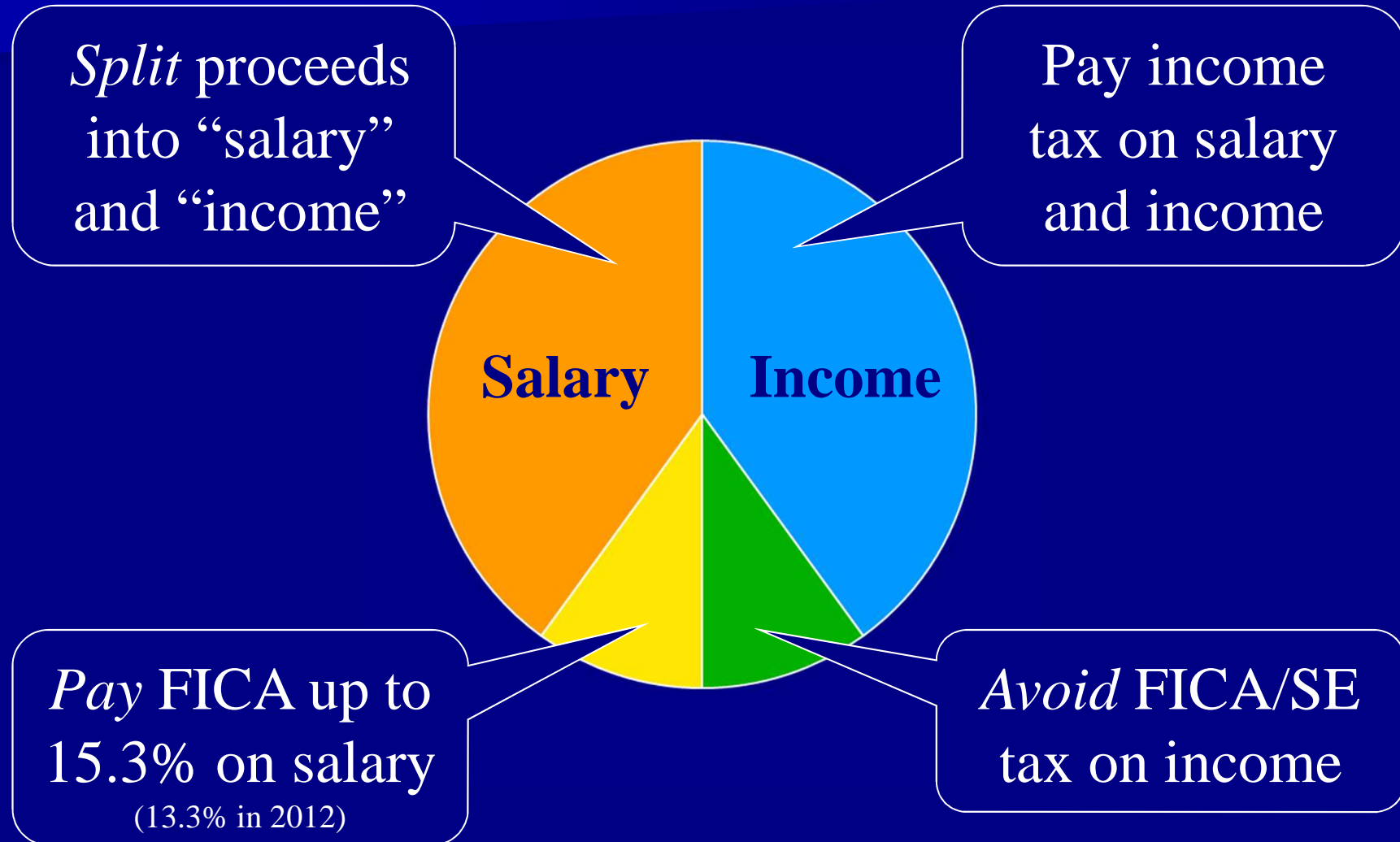
Report net
income on
Schedule C

Pay *income*
tax on net
income

Pay *SE* tax up
to 15.3% on
income
(13.3% in 2012)



S-Corporation



Employment Tax Comparison

S-Corp FICA	
Salary	\$40,000
FICA	<u>\$6,120*</u>
Net	\$73,880
<small>* 2012 = \$5,320</small>	

Proprietorship SE	
Income	\$80,000
SE Tax	<u>\$11,304**</u>
Net	\$68,696
<small>** 2012 = \$10,640</small>	

**S-Corp Saves
\$5,184**

#3: "Audit Paranoia"



#4: Missing A Home Office

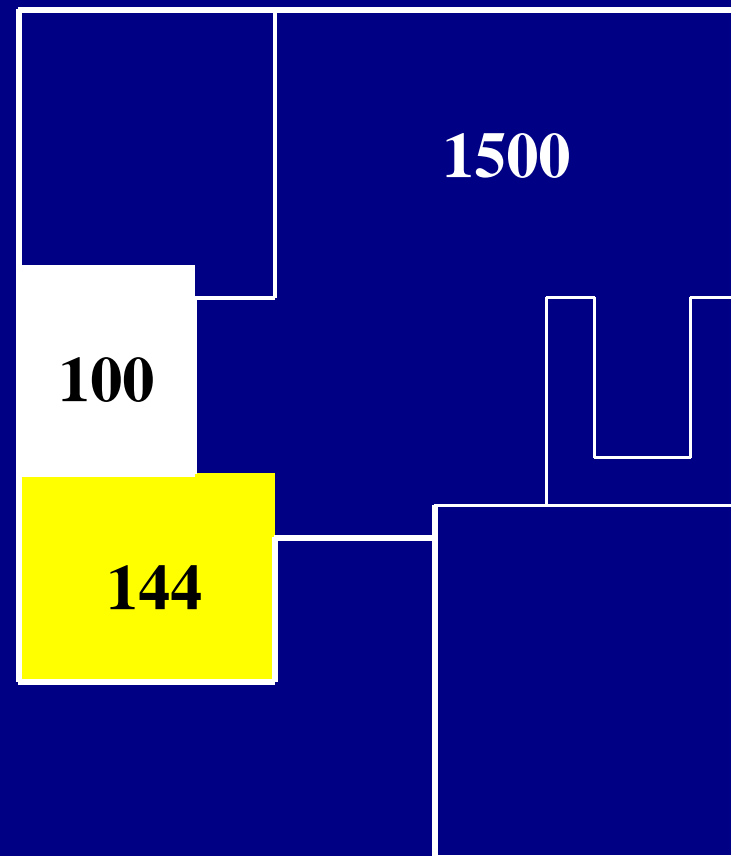
“Principal place of business”:

1. “exclusively and regularly for administrative or management activities of your trade or business”
2. “you have no other fixed location where you conduct substantial administrative or management activities of your trade or business.”

Source: IRS Publication 587

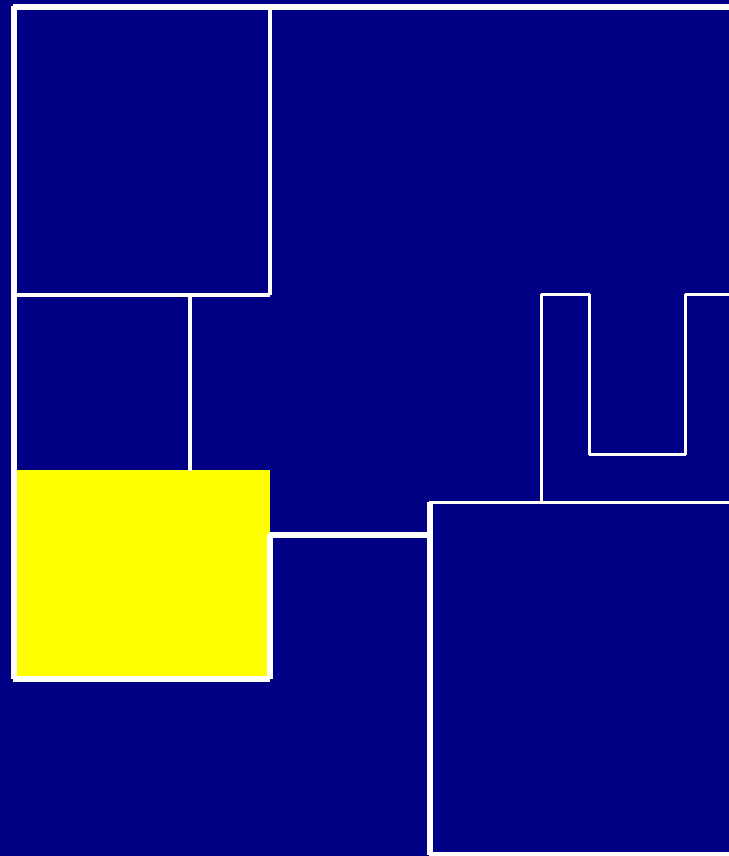
#4: Missing Home Office

- Determine “BUP” of home
 - Divide by rooms
 - Square footage
 - Eliminate “common areas”



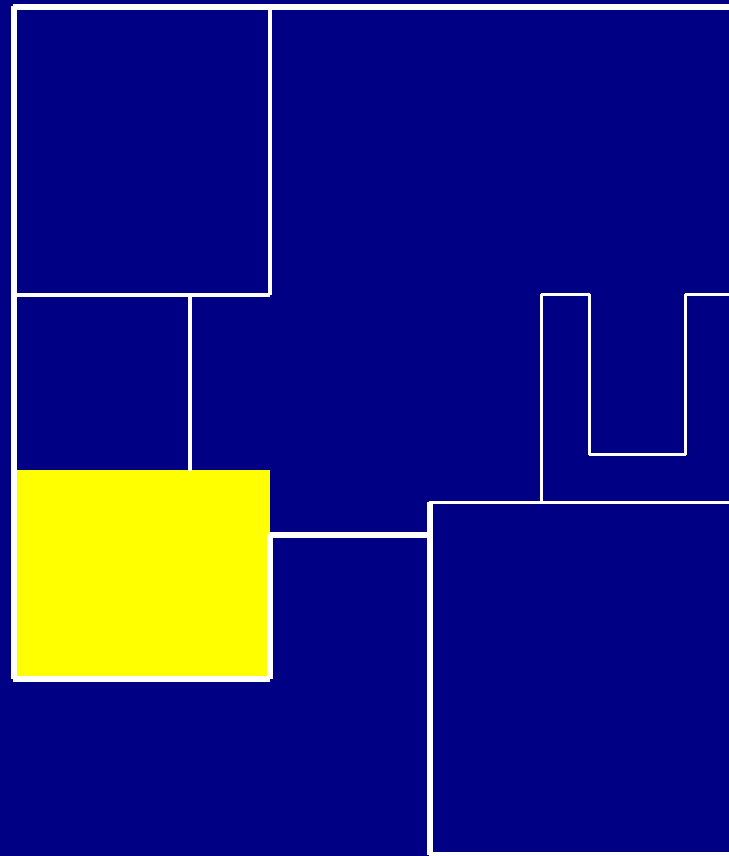
#4: Missing Home Office

- Deduct “BUP” of expenses:
 - Mortgage/property taxes (better than Schedule A)
 - Utilities/security/cleaning
 - Office furniture/decor
 - Depreciation (39 years)
- Increase business miles



#4: Missing Home Office

- When you sell:
 - Recapture depreciation
 - *Keep* tax-free exclusion



#5: Missing Car/Truck Expenses

AAA Driving Costs Survey (2011)

Vehicle	Cents/Mile
Small Sedan	45.1
Medium Sedan	57.3
Large Sedan	73.2
4WD SUV	74.9
Minivan	63.3

Figures assume 15,000 miles/year; \$2.603/gallon gas

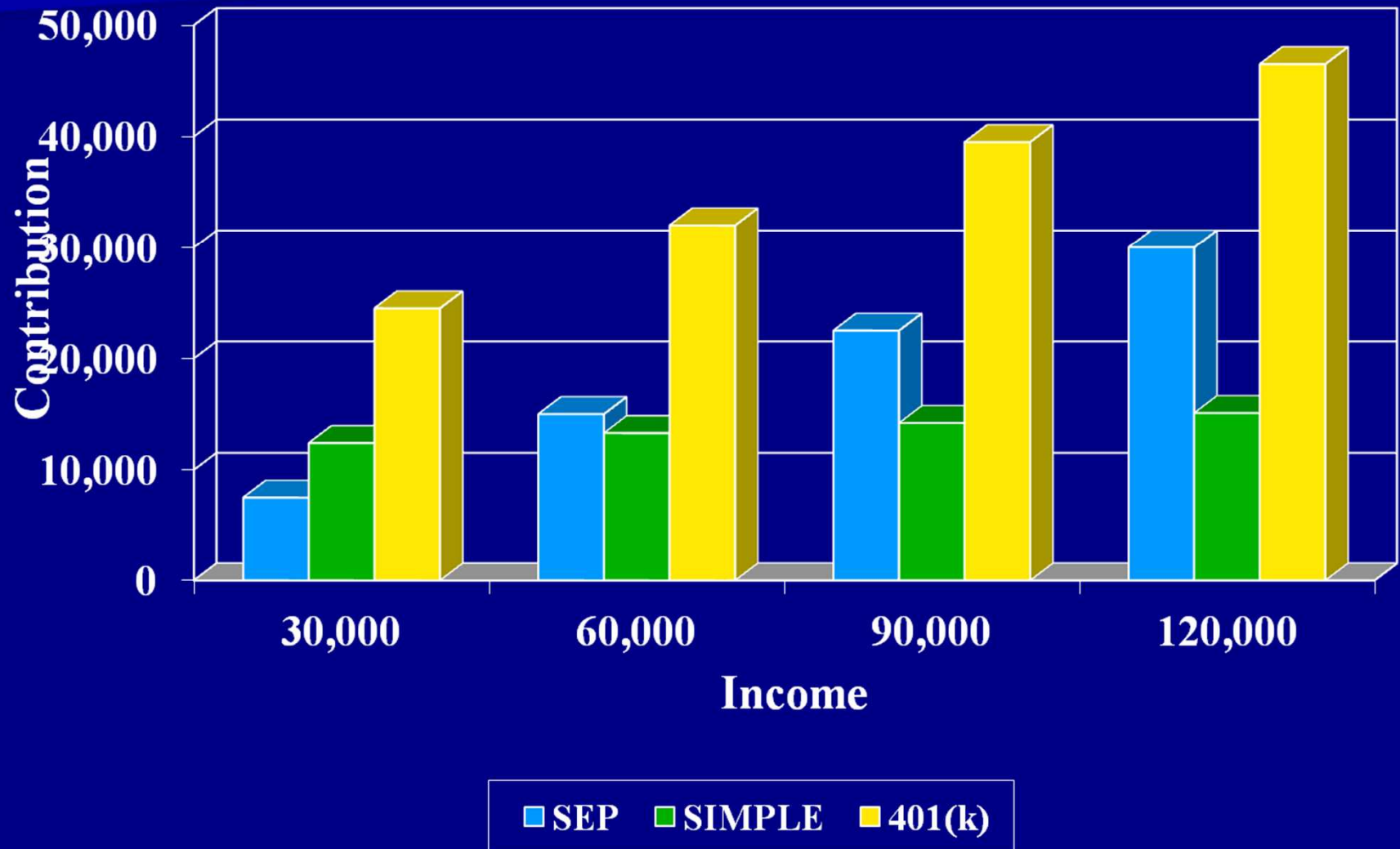
#6: Missing Meals/Entertainment

- *Bona fide* business discussion
 - Clients
 - Prospects
 - Referral Sources
 - Business colleagues
- 50% of most expenses
- Home entertainment
- Associated entertainment

#6: Missing Meals/Entertainment

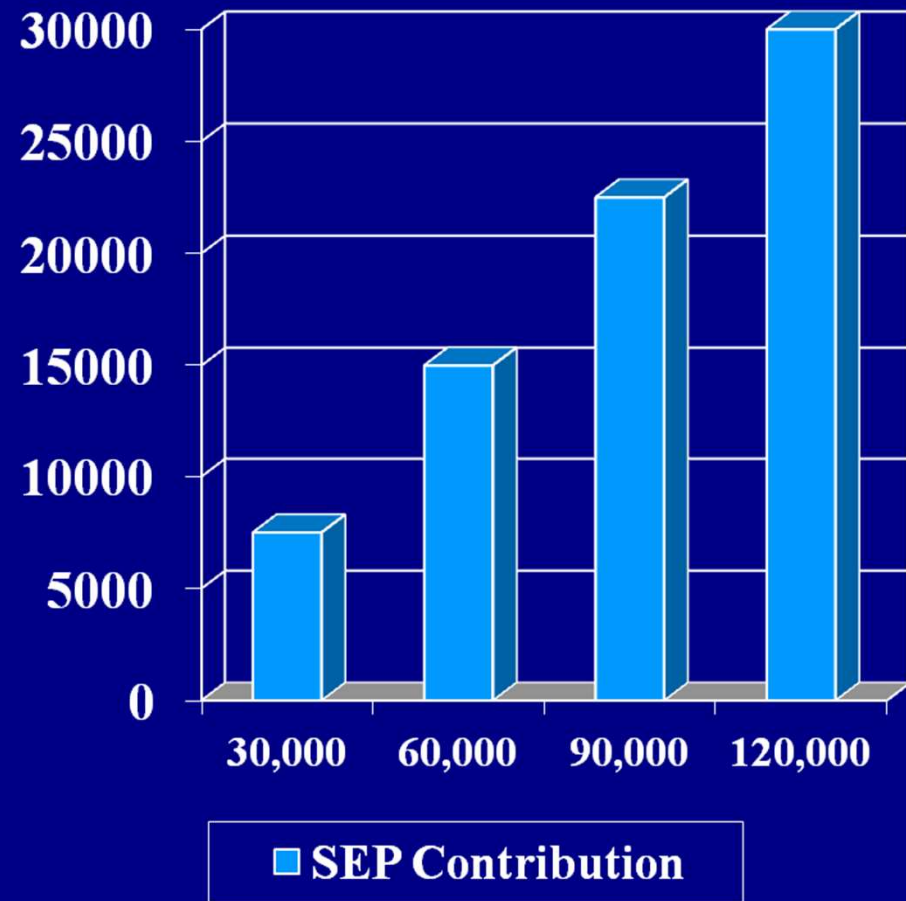
- How much?
- When?
- Where?
- Business purpose?
- Business relationship?

#7: Wrong Retirement Plan



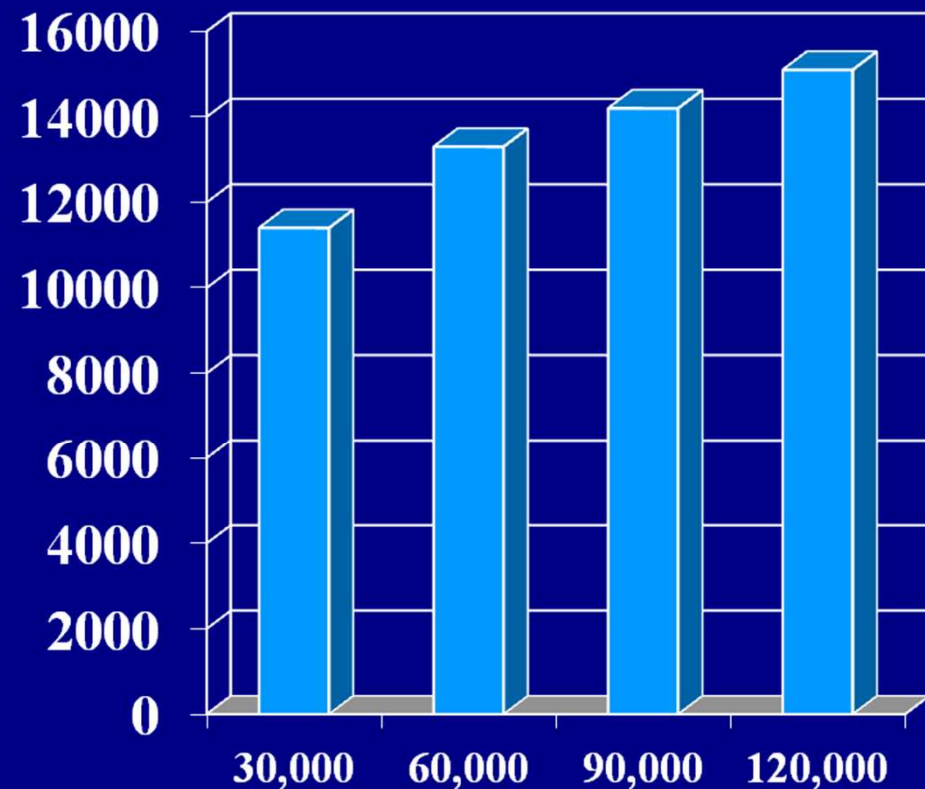
Simplified Employee Pension

- “Turbocharged” IRA
- Contribute up to 25% of income
- Max. contribution: \$49,000
- Must contribute for all eligible employees
- Contributions directed to employee IRAs
- No annual administration



SIMPLE IRA

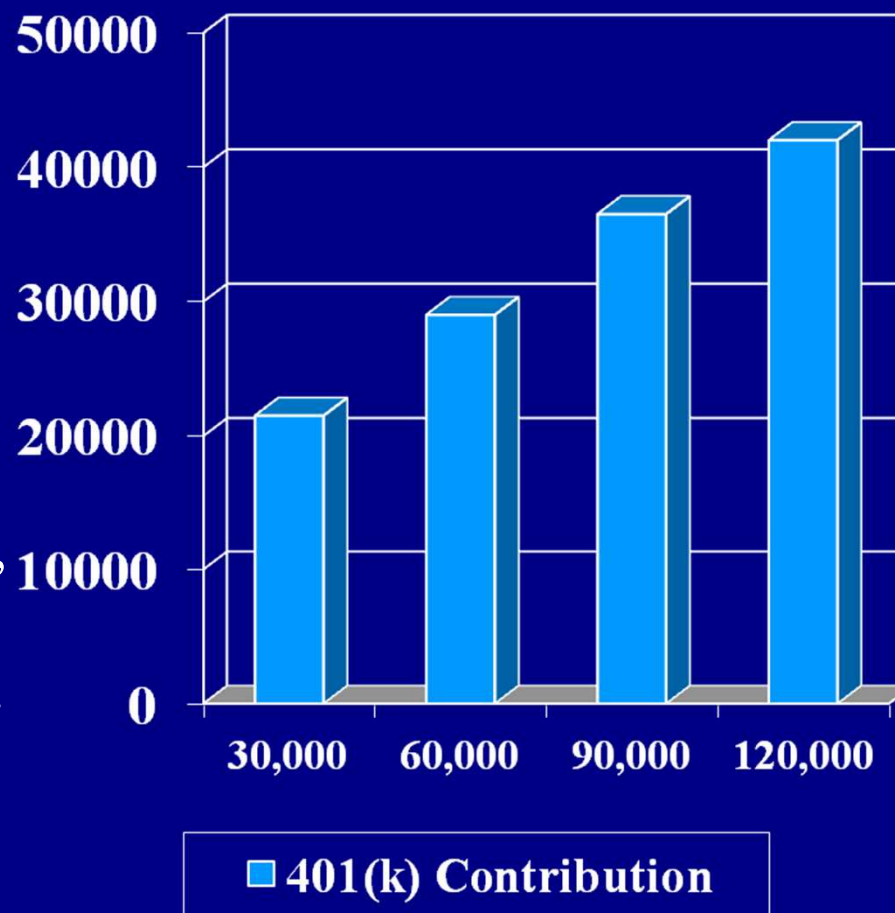
- Defer 100% of income up to \$11,500
- Age 50+ add \$2,500 “catch up”
- Business “match” or “PS”
- Contribute to IRAs
- No annual administration



■ SIMPLE Contribution

401(k)

- Defer 100% of income up to \$16,500
- Age 50+ add \$5,500 “catch up”
- Employer contributes up to 25% of “covered comp”
- Max. contribution: \$49,000
- Loans, hardship withdrawals, rollovers, etc.
- Simplified administration for “individual” 401(k)



Defined Benefit Plan

- Guarantee up to \$185,000
- Contribute according to age and salary
- Required contributions
- “412(i)” insured plan
- “Dual” plans

Age	Regular	412(i)
45	\$80,278	\$164,970
50	\$133,131	\$258,019
55	\$211,448	\$395,634
60	\$236,910	\$450,112

Projections based on retirement at age 62 with \$165,000 annual pretax income.

#8: Missing Family Employment

- Children age 7+
- First \$5,800 tax-free
- Next \$8,500 taxed at 10%
- “Reasonable” wages
- Written job description, timesheet, check
- Account in child’s name
- FICA/FUTA savings

#8: Missing Family Employment

- Children age 7+
- First \$5,800 tax-free
- Next \$8,500 taxed at 10%
- “Reasonable” wages
- Written job description, timesheet, check
- Account in child’s name
- FICA/FUTA savings

#9: Missing Medical Benefits

- Employee benefit plan
 - Married: Hire spouse (no salary necessary)
 - Not married: C-corp
- Reimburse *employee* for medical expenses incurred for self, spouse, and dependents
- Works with any insurance
 - Use your own insurance
 - Supplement spouse's coverage

MERP/105 Plan

- Major medical, LTC, Medicare, “Medigap”
- Co-pays, deductibles, prescriptions
- Dental, vision, and chiropractic
- Braces, fertility treatments, special schools
- Nonprescription medications and supplies

MERP/105 Plan

- Written plan document
- No pre-funding required
 - Reimburse employee
 - Pay provider directly
- Bypass 7.5% floor
- Minimize self-employment tax

Health Savings Account

1. “High deductible health plan”
 - \$1,200+ deductible (individual coverage)
 - \$2,400+ deductible (family coverage)

Plus

2. Tax-deductible “Health Savings Account”
 - Contribute & deduct up to \$3,100/\$6,250 per year
 - Account grows tax-free
 - Tax-free withdrawals for qualified expenses

#10: Missing Tax Coaching Service

- *True* Tax Planning
- Written Tax Plan
 - Family, Home, and Job
 - Business
 - Investments
- Review Returns