

Periodic Business Review



Business Tax Deductions

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The Watson CPA Group are business consultants first and accountants second. Far too often business CPAs are simply compliance-oriented and are not a client advocate by helping owners understand general principles and subsequent business tax deductions. We have a few objectives when engaging with small business owners-

- Assist business owners in appreciating the financial landscapes of their business, and add expertise and comfort to operational decision-making.
- Have our business owners understand how the numbers of a tax return come together and what they mean so together we can improve tax planning.
- Put business owners in better IRS-compliant positions to minimize tax consequences and keep more money in their pockets.
- Help owners leverage more from their business and apply those benefits to everyone, including family.

To accomplish these objectives and ensure that no rock goes unturned, we have created a Periodic Business Review (PBR) agenda. It is a framework designed to get the creative juices flowing and jog your memory about some of the issues keeping you up at night. Having said that, a PBR is your meeting so if there are specific questions and concerns we focus on those first. More importantly a PBR is a living engagement- we can never solve all your problems in one meeting and today's objectives evolve over time. Click on the button below to review our PBR agenda-

[Periodic Business Review Agenda](#)

Entity and Ownership Considerations

Everyone wants to jump into business deductions, but like anything else we need to make sure your business foundation is set up correctly. We explore putting your spouse on payroll, and why it might make sense (such as max'ing out solo 401k plan contributions). How about your children? This is usually a good idea when your marginal tax rate is 25% or greater. Why? The

additional cost of payroll taxes (15.3%) must exceed the delta between Junior's marginal tax rate and your tax rate. So, is putting your kids on payroll a good idea? Sure, in some circumstances.

Mom and Dad as owners? Perhaps. As you get older magically your parents get older too, and Mom and Dad might not have enough money. Instead of squirreling away a few bucks here and there at your tax rate, have your parents be minority, inactive shareholders. They take distributions at their tax rate and because they are not participating in your business they do not need a wage.

Do you have several business units such you are a consultant and your spouse is real estate agent? Do you need a holding company? Other issues explored are business exit strategies and ownership expansion with key personnel.

Owning real estate and leasing it back to your business is commonplace but occasionally we still see operating entities owning real estate. Usually not the next idea. But have you explored leasing equipment back to your business? Buy a car and lease it back?



How about Operating Agreements with non-spousal partners? Provisions for death and divorce are easy. Most junior associate attorneys can draft these provisions one handed with the lights off. How about incapacitation? How is that defined? If you do have a death, divorce or incapacitation situation how is the entity valued? How about distribution formulas and cash reserves? What monetary amount can each shareholder spend on behalf of the company without approval? What is the dispute resolution when conflict among owners arise?

Oftentimes with non-spousal owners we set up a multi-member LLC with each member being an S corporation owned by each person individually. Why does this help? Lower self-employment taxes, but provide autonomy in terms of revenue sharing and corporate expenditures. For example, each owner can buy a company car without concern for amount spent and subsequent office politics since the car is isolated in the individual's S Corp.

Small Business Tax Deductions

Finally! Sorry to make you wade through all the foundational considerations. Let's start off with some softballs. Home officers, cell phones, internet charges and personal vehicles should all be paid for personally and then reimbursed by your company for the business portion. The reimbursement is done through an Accountable Plan. This bolsters the arms-length perspective that must be maintained between the business owner and the business. Imagine you worked for [Microsoft](#), and you incurred expenses on behalf of your employer such as using your personal vehicle to pick up Bill Gates from the airport. You would turn an expense report into payroll for reimbursement. Same thing with your business. Click on the button below for more information about Accountable Plans-

[Accountable Plan](#)

While we are on the topic of vehicles, there are several scenarios to consider. Do you use the car for nearly 100% business use?

Do you have another car at your disposal? Do you drive a lot of miles where the mileage rate might be better in favor of actual expenses (about half the mileage rate is depreciation)? We can explore these questions and find the best match for your business and tax objectives. By the way, Yes, the car has to be in the business name. Yes, your insurance increases. Yes, your car loan will be more expensive. Yes, you will lose an audit if you don't satisfy these three things (title, insurance and loan in business name).

What about meals with your spouse? Normally not deductible but what if your spouse is an employee? As a business owner, your business is all you think about and magically is talked about a lot- brushing your teeth, dozing off in bed, driving to the opera, and eating meals. Sure, you can't drop \$300 every other night on a drinks and steaks, and call it business related, but here and there works. This might all go away with the interpretations of the Tax Cuts and Jobs Act of 2017, but we'll wait and see for now.

How about golf outings? Sporting events? The hot buttons of the IRS can get you in trouble. Two business owners could deduct the exact same expense, but one would win an audit and one would lose an audit. The answer is simply knowing the rules, and positioning you and the business accordingly.

We've dedicated a whole web page to small business tax deductions. Please click the button below-

[Business Tax Deductions](#)

Gimmick Business Tax Deductions

There is all kinds of material out there giving you a laundry list of business deductions. Be careful! Some of these are gimmicky. For example, you can rent out your primary residence for 14 days or fewer, and the income is not taxable. Yeah, pretty cool. Some argue that originated from Augusta where the Master's golf tournament is held. At any rate, some business consultants advocate leasing your house to your business for a 14-day board meeting. Really?!

You are a company of one (or perhaps two), and you need a 14-day board meeting. There is an underlying rule in business deductions- they must be ordinary and necessary. You would fail on both fronts. Perhaps one day, but not fourteen. Having said that, we have a client who sells [Pampered Chef](#), and she hosts parties once a month. Yes, her business leases her house- deductible for the business and she does not have to pick up the income. Win win!



Again be careful of the one size fits all business tax deduction that you hear about in the locker room at the club or over a drink at a cocktail party. Yes, these can work for you but you must know the rules and, as mentioned before, position yourself carefully.

Business Tax Planning

One of the cornerstones of our Periodic Business Reviews (PBR) is small business tax planning. We don't mind telling you bad news, we just don't want you to be surprised by it. If we tell you in September that you are tracking to owe \$10,000 next April, you gulp and then we figure out a way to minimize the pain. If we tell you on April 15th that you owe \$10,000, you should fire us.

There are very few things worse than having \$50,000 in the bank and not knowing how much you can spend. Through tax planning we can add comfort to your family budget- "Hey, we need you to send off \$20,000... the rest you can spend as you wish."

We also explore solo 401k plans and defined benefits pensions. Remember, these are tax deferral tools not tax reduction tools. The Watson CPA Group also has Certified Financial Planners, and far too often we see people defer taxes at 25% just to pay it back at 28%. As people get older, they earn more and have fewer deductions... it is not uncommon for your marginal tax rate to increase during your retirement years.

Also, tax deferrals hold your money captive until 59.5 years old, and also create a tax bomb at 70.5 years old when required minimum distributions kick in. With \$2M in tax-deferred money, your RMD is about \$73,000. \$3M is \$110,000. You start piling this onto all your other income sources, and boom, higher tax bracket! Having said that, your 401k plan doesn't count towards RMDs provided you still are employed- well, if you work for yourself, this is easy.

Risk Mitigation and Estate Planning

During our PBRs we also talk about disability insurance and umbrella policies. How about long-term care insurance? We also explore how to get you out of your business- can you sell your future cash flow stream like an insurance agent or financial advisor would? If so, when is the optimal time to sell? Do you have an employee or two that might want to buy-in? How does that work? We can help!

How about your Will and Trust? Should your business be a part of your trust? Again, we can help. For our full PBR agenda, please click the button below-

[Periodic Business Review Agenda](#)

Let's [schedule a time to chat](#) by emailing us or calling 719-387-9800. Our fee is \$250 per hour for Period Business Reviews. If you are one of our S corporation package clients, then PBRs are complimentary. What is our S Corp package? Good question...



S Corp Package

The Watson CPA Group specializes in S corporations which have a small number of shareholders, and are often just a one-person show. Did you know that 95% of all S Corps have only one shareholder, and 99% of all S Corps have three or fewer shareholders? Because small business is a core competency for us, we have created an S corp package that includes the following (No, the S doesn't stand for stormtrooper)-

	A la Carte*	Aspen	Vail	Breck	Keystone
S Corp Reasonable Salary Calculation (sample report)	\$400	Yes	Yes	Yes	Yes
Section 199A QBID Tax Optimization (more info)	\$300	Yes	Yes	Yes	Yes
S Corp Payroll Filings and Deposits	\$1,200	Yes	Yes		
Annual Processing (W2s and other filings)	inc.	Yes	Yes		
S Corporation Tax Prep (Form 1120S)	\$800 to \$1,100	Yes	Yes	Yes	Yes
Individual Tax Prep (Form 1040), One Owner	\$500 to \$700	Yes		Yes	
Estimated Tax Payments (done thru payroll or directly by us)	\$300	Yes	Yes	Yes	Yes
2018 Tax Planning, Mock Tax Returns (Tax Questionnaire)	\$300 to \$500	Yes	Yes	Yes	Yes
Unlimited Consultation and Periodic Business Reviews (PBR)	\$1,200	Yes	Yes	Yes	Yes
First Research Industry Reports (sample report)	\$150	Yes	Yes	Yes	Yes
Small Business Tax Deductions Optimization	inc.	Yes	Yes	Yes	Yes
IRS Audit Defense	NA	Yes		Yes	
	Annual Fee	\$2,940	\$2,640	\$2,460	\$2,160
	Monthly Fee	\$245	\$220	\$205	\$180

* A la Carte fee ranges are approximates. 90% of our clients fit into these fee ranges, but there are outliers. We have a handful of clients with over 30 rentals; their individual tax return is north of \$2,500.

Couple of other things to keep in mind- we make very little profits on payroll processing... we offer it as a convenience to our clients. One throat to choke with a single call can be reassuring but if you want to run your payroll, go for it! And... the benefit of the Watson CPA Group preparing both tax returns is that we slide things around depending on income limitations, phaseouts, alternative minimum tax (AMT), Section 199A deduction optimization, etc. Having our arms around both can yield some good tax savings!

Some more things to consider- Since only a partial year remains, our usual annual fee is pro-rated to not charge you for services you didn't use (like payroll and consultation). However, a large chunk of our annual fee is tax preparation which is typically a fixed amount of \$1,300 (both corporate and personal). Whether we onboard you in January, July or December, we have to prepare a full year tax return. This increases the monthly fee for the remaining months of 2018 but the monthly fee will later decrease in January of 2019 to reflect the amounts above. Yeah, we make it sound like 2019 is just around the corner.

No BS



We are not salespeople. We are not putting lipstick on a pig, and trying to convince you to love it, even if Tom Ford's Wild Ginger looks amazing. Our job remains being professionally detached, giving you information and letting you decide.

We see far too many crazy schemes and half-baked ideas from attorneys and wealth managers. In some cases, they are good ideas. In most cases, all the entities, layering and mixed ownership is only the **illusion of precision**. Just because you can complicate the crap out of your life doesn't mean you must.

Section 199A Deduction Optimization

Section 199A is a derivative of the recent Tax Cuts & Jobs Act of 2017. In a nutshell, business owners including rental property owners will enjoy a 20% deduction based on the qualified business income. There are limitations based on income, W-2 wages and depreciation. As a result, there is some optimization that is necessary for a small business owner to get the most from the Section 199A deduction. On one hand we want to reduce W-2 salaries to shareholders to minimize self-employment taxes. On the other hand, we want to increase W-2 salaries so they do not limit the amount of Section 199A that is deducted. Read our full Section 199A Qualified Business Income article by clicking on the button below-

[Pass Thru Tax Reform](#)

Our Business Expertise



As mentioned elsewhere we primarily focus on small business owners and their unique consultation and tax preparation needs. With 16 full-time consultation professionals including Certified Public Accountants and Certified Financial Planners on [our team](#), the Watson CPA Group consults on corporate structures, S corp elections (even late S corp elections back to January), tax strategies, business coaching, industry analysis, executive benefits, retirement planning including individual 401k plans, exit strategies, business valuations, income tax modeling and tax representation.

We also work with business law attorneys in California, Texas and Colorado for business owners who have additional needs such as buying or selling a business including employee stock ownership plans and partner buy-ins. We also coordinate with Polycomp and RPS to create age-based profit sharing plans and cash balance (defined benefit) plans. We can run point on whatever your business needs so the communication is effective and efficient.

The button below links to our Periodic Business Review (PBR) Agenda. We use this throughout the year as a checklist for our business clients. We can also use it for any type of business consultation. Here are some other buttons that you might be interested in as well.

[Periodic Business Review \(PBR\)](#)

[S Corp Questionnaire](#)

[Sample Biz Services Proposal](#)

[Business Tax Deductions](#)

Click the button below to schedule a 40 minute consultation. Our fee is \$150, but we credit that back to you if you decide to engage us for future services. Low risk, high- reward.

[Business Consultation](#)

How does all this work? Talk to us today to not just get started, but to get started on the right track!