TAX SAVING STRATEGIES

YOU CAN BANK ON!

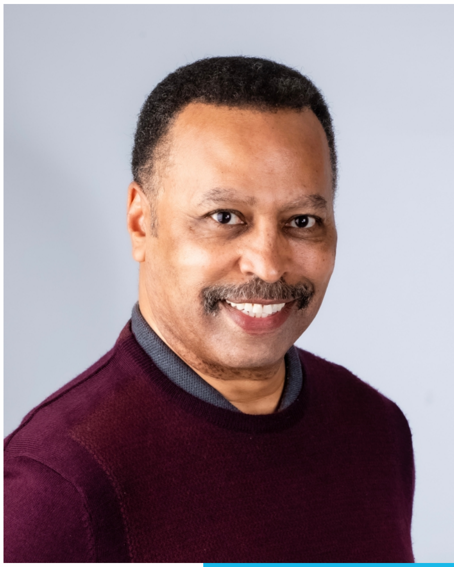
James T. Johnson III, EA, MS

We know how important it is to have tax planning tips and strategies readily available when needing to make informed business decisions. This e-book will undoubtedly be at the top of your list of valuable resources kept on your phone or tablet and as a business owner, will prove to be one of the most important purchases you have ever made. A lot of work and study has gone into the book's construction, allowing you to easily click on the Table of Contents hyperlink and navigate directly to that particular section of the book for quick and easy access to tax related guidance on the topic of your choice. We hope that you use this resource to reduce your tax liability and exposure. The money you will save can help build your family's financial security and wealth.

Supercharge your tax-savings by taking advantage of every deduction allowed!

We can work together to bring your financial goals to fruition while helping you to maintain important tax compliance in the process!

Sincerely,
James T. Johnson III, EA, MS
Enrolled Agent



How to Use This Guide
In this e-book you will find:

- Indicators that will focus your thinking on proactive tax planning.
- Strategies taxpayers are currently using to reduce their tax burden ethically and morally.
- Specific action steps to take to reduce your tax bill.

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SECTION II: WINNING STRATEGIES FOR EVERY BUSINESS

Introduction

Taxes are the single most costly and worrisome financial obligation that taxpayers must endure during their lifetime. It is estimated that out of the annual revenue generated by the average taxpayer to pay living and other expenses, it takes the sum of all earnings from January 1st through April 15th of each year to meet a taxpayer's annual tax liability without factoring in any consideration for living expenses. As taxpayers, you work only to pay your taxes for the entire first quarter of each year before generating income for yourself and your family.

Congress expects taxpayers to understand and interpret the tax code and have the wherewithal to apply available credits and deductions afforded to them under the tax laws to minimize exposure to excessive taxation. To minimize your tax liability and pay only your fair share, you must use all available tax resources, credits, and deductions permissible in tax law. However, tax law in many areas of business can be unsettled and you will need a tax professional to assist you in generating substantial authority using case law and other precedence setting means if you find yourself venturing into unknown territory.

The purpose of this e-book is to introduce legal and ethical tax planning strategies that when implemented will allow you to keep more of your hard-earned money.

The tax strategies contained in this e-book are just the tip of the iceberg. You only need to select those that fit your business and learn to incorporate them into your overall tax planning. If you think you might be missing out on tax planning opportunities that could be costing you thousands of dollars each year, we will arrange an introductory tax strategy meeting to get to know your business and determine if any of the strategies outlined in the e-book will work for you. We'll review your business entity structure and accounting system to ensure you're maximizing profits and cash flow and minimizing taxes and waste.

Johnson & Associates LLC tax services are not only reliable and accessible all year round, but also fully tax deductible in most cases. Implementing just one of our many tax strategies will allow you to keep more of your hard-earned money and provide you with a deductible business expense that produces savings far beyond the cost.

A smart investment indeed!

Chapter 1:

Take Advantage of These Tax Reduction Strategies

The Augusta Rule

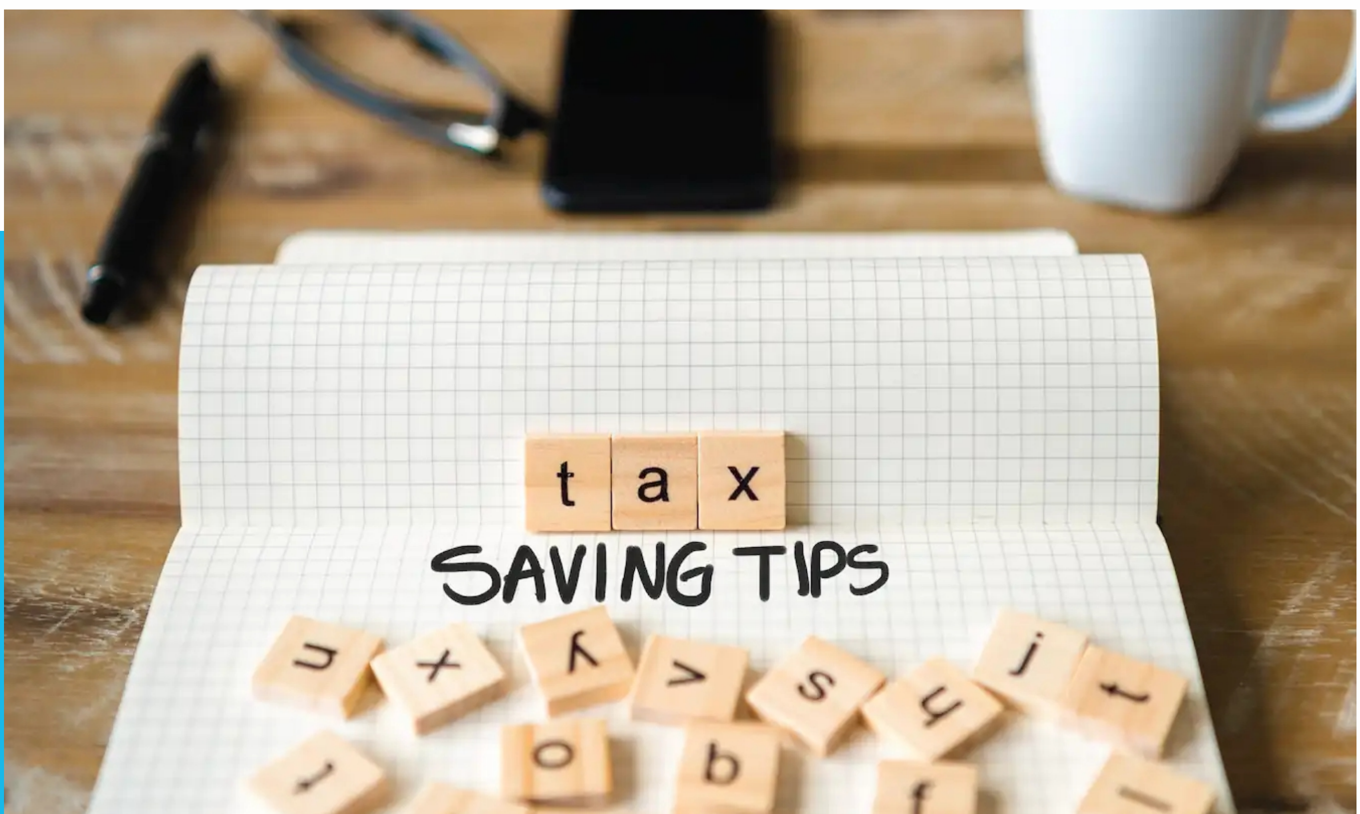
The Augusta Rule is a strategy that allows you to shift taxable business income to tax-free personal income. If you're a golfer, then you know the Masters Tournament is held every year in Augusta, Georgia. Like the Super Bowl or the Olympics, the Masters draws a lot of visitors looking for lodging. In the 70s, wealthy homeowners near the course started renting their homes during the tournament, and they lobbied for that income to be tax-free since they weren't full-time rental homes. The result? When you rent your personal home for up to 14 days per year, that income is not taxable. This is true even if you rent the home to a business you own. The next time you need to hold a corporate meeting or a team training, do it at your home rather than your office, and have your business pay you for renting your home. You can claim the rental expense for your business, as long as you document the business use and confirm that it was a reasonable rate. You can find comparable rates by getting quotes for hotel event spaces or even Airbnb rentals in the area. As long as you don't rent your home for more than 14 days per year, you'll be able to take the business expense without having to report the money as rental income on your personal tax return. A tax-deductible write-off for your business and tax-free personal income equals a win/win situation. We advise our clients to have one monthly company meeting at their home, which equals a total of 12 rental days. For example, if you rented your home to your business for $1,000 each meeting, that's $12,000 you just shifted from taxable income to tax-free income.

Hiring Your Kids to Work in Your Business

Do you want your children to learn the value of a hard-earned dollar and maybe even take an interest in the family business? The new tax law makes it better than ever to hire your children. If your business has the right business entity structure, there are some great perks to hiring your own dependent children. Instead of giving them an allowance or paying them to mow the lawn, why not pay them a reasonable wage to work around the office? Their income will be exempt from Social Security, Medicare, and federal unemployment tax withholdings. They'll also be able to shelter a significant amount of that income with their standard deduction since it's earned income, meaning the first $12,950 you pay each of them will be tax-free. On your end, the wage expenses are fully tax-deductible, just as they would be if you hired someone else. Depending on your child's age, this is a great way to get cleaning and lawn care, light office work, or some computer support at for your office.

The Hidden (Fringe) Benefits of Hiring Your Spouse

If you have a small, family-owned business, there could be big tax incentives for hiring your spouse. Hiring them on a part-time basis and paying them in the form of fringe benefits can be both a tax-deductible expense for the business and a tax-free source of compensation for your family. For example, a Section 105 medical reimbursement plan can make up most or all the reasonable compensation you pay to your spouse for their work. These contributions are a salary expense for you as the employer and can be used by your spouse, the employee, to cover out of pocket medical and dental expenses and insurance premiums. This is another way you can shift taxable business income to tax-free personal income. There are a few words of caution on this loophole strategy to be allowed by the IRS, the Section 105 plan needs to be carefully planned out and documented. You must also make sure the compensation you provide to your spouse isn't too much or too little and that they are performing a job that is necessary for your business. If you have multiple employees, this will be considered a benefit since it is a health care expense reimbursement plan, you can't discriminate between employees and offer it only to one person, even if that one person is your spouse and even if it's their only form of compensation. Consult with your tax strategist to see how you might be able to pay your spouse a tax-free income.



Chapter 2:

Tax Strategies for Schedule C Businesses

Deduct Your Health Insurance Premiums with a Section 105 Plan

If you hire your spouse as an employee in your business, you may reimburse the employee-spouse for family medical expenses, turning those reimbursements into business expenses that are deductible as employee welfare benefits. You cover your employee-spouse with family coverage, and that's how you, the employer-spouse, get your coverage.

Your Child as Your Employee

When you hire your child, you shift taxable income from a higher tax bracket to a lower, or even zero, tax bracket. Schedule C taxpayers are also exempt from FICA when they employ their children who are under age 18. Additionally, each child can earn up to the standard deduction amount without paying any federal income taxes.

Your Spouse as Your Employee

Instead of paying your spouse wages on a W-2, you can reimburse his or her medical expenses. This not only reduces your FICA tax expense, but also allows you to use medical expenses as a deduction against your business income.

Tax Benefits of Renting Equipment and Other Assets From Your Spouse

If you own an office building or other assets, a rental arrangement with your spouse could significantly cut your self-employment taxes by enabling you to move income from Schedule C onto Schedule E. Schedule E, unlike Schedule C, does not give rise to self-employment taxes.

Home Office Expenses

The home office deduction allows you to convert a portion of your nondeductible personal expenses, such as utilities and insurance, into deductible business expenses and to depreciate a portion of your home as business property. Having another office outside the home does not preclude you from claiming the home office. In fact, If the home office is the principal place of business, the mileage driven between the home office and business office transforms from nondeductible commuting miles to deductible business mileage.

De Minimis Fringe Benefits

Under the de minimis fringe benefit rules, your business deducts the cost of flowers, fruit, books, and similar items given to you or your employees under special circumstances. The recipients (both you and your employees) receive these fringe benefits tax-free.

Vehicle Expenses

There are major tax savings with the heavy vehicle and home office combo. The heavy vehicle produces quick deductions. A home office that qualifies as a principal office eliminates commuting miles, which can dramatically increase a vehicle's business-use percentage.

Domestic Travel Expenses

If you travel to a destination within the United States for business purposes, and you spend most of your trip on business, you may deduct 100 percent of your direct route transportation expenses. You may deduct your meals and lodging for business days as well.

Foreign Travel Expenses

If you travel outside of the United States for business purposes for fewer than seven days, you may deduct 100 percent of your transportation costs. This includes travel costs, meals, and lodging, even if your work concludes on the first day.

Cell Phone Expenses

There are two strategies relating to business cell phones. The first is a provision when the business provides a cell phone to an employee, the second pertains to the business use percentage of a business owner's cell phone.

When a sole proprietor provides an employee with a smartphone or similar telecommunications equipment primarily for noncompensatory business reasons, it is considered a working condition fringe benefit that is excludable from income. The business can reimburse the employee for the full cost of the phone expenses (including the personal use) and deduct this amount on Schedule C.

The reimbursement is tax-free income to the employee. As a sole proprietor, you may deduct the business use percentage of your smartphone expenses and depreciate or expense the cost of the device itself.

Chapter 3:

S-Corp Tax Strategies

Reduce S Corporation Owner's Wages

You can cut payroll taxes on the S corporation owner's salary by thousands of dollars in many cases. Too many owner/employees are paying too high a salary to themselves, resulting in overpaying payroll taxes.

Deduct S Corporation Owner's Health Insurance Premiums

The S corporation establishes the health insurance plan for the owner. The health insurance premiums are then included on the owner's W-2 taxable wages. If the owner qualifies for the self-employed health insurance deduction, the expense is claimed on page one of the owner's 1040.

Your Child as Your Employee

The S corporation owner must pay payroll taxes on the child's wages, but the savings come with the family's decrease in income taxes. Each child can earn up to $12,950 in 2022 without paying any federal income taxes. Tax reform increased the tax benefits of employing your child.

Sell Your Home to Your S Corporation Before Converting it to a Rental Property

When a homeowner plans on converting their personal residence into a rental property, there are big tax savings by first selling the home to their S corporation. The owner can avoid taxes on the sale with the home-sale exclusion of $250,000 gain ($500,000 if married). Additionally, you increase the rental property's depreciable basis which provides for greater depreciation deductions for the property.

Reimbursement of Home Office Expenses

When the S corporation owner uses a home office, the corporation may reimburse the home office expenses. This is a deduction for the corporation and tax-free income to the owner. You may deduct this as "Office Expenses" on the corporate return.

Rent Your Home to Your S Corporation

An S corporation owner may rent their entire home to the S corporation for 14 days or less during the year and get big tax deductions. The corporation can deduct the rent and the owner can realize this income completely free of income tax.

Reimbursement of Depreciation Expenses

The S corporation can reimburse the owner for depreciation expenses (as well as Section 179 expenses) related to business-use of a vehicle and home office when the asset is used in the business. This is a deduction for the corporation and tax-free income for the owner. You may deduct this as "Reimbursement for Employee Business Expenses".

Reimbursement of Vehicle Expenses

There are major tax savings with the heavy vehicle and home-office combo. The heavy vehicle produces quick deductions. The home office that qualifies as a principal office eliminates commuting miles, and such an elimination can dramatically increase the business-use percentage of vehicles.

Reimbursement of Travel Expenses

When the S corporation owner incurs travel expenses in connection with work in the business, the owner is eligible to receive reimbursement from the corporation. For the corporation to deduct these expenses, the owner must submit an expense report to the corporation and be reimbursed.

Cell Phone Expenses

When an S corporation provides an employee with a cell phone or similar telecommunications equipment primarily for noncompensatory business reasons, it is considered a working condition fringe benefit that is excludable from income. The corporation can reimburse the employee for the full cost of the phone expenses (including personal use) and deduct this amount on the corporate tax return. The reimbursement is tax-free income to the employee.

Chapter 4:

Mixing Business and Pleasure

How would you like to make your next family vacation a tax-deductible business expense? If you're as busy as most self-employed professionals, finding time for a vacation can be a challenge. But by planning both business and pleasure time into the same trip, you can turn many of your personal travel expenses into tax-deductible business expenses.

There are a lot of expenses that you can make tax-deductible. Travel expenses for flights, car rentals, or vehicle expenses can all be deducted. So can lodging and 50 percent of meal expenses that are related to your business transactions. There are

several rules you need to follow to take advantage of this strategy. For example, you need to be conducting business the majority of the time in order to deduct a trip as a business expense. The IRS measures it in days, meaning you'd need to spend at least 4 days out of a one-week trip mainly on business if your destination is in the US.

The rules aren't as strict for international business trips. Business only needs to be 25% of your trip if your destination is outside of the US. Makes a trip to the beach in Mexico sound even better, doesn't it? Traveling to and from your destination is considered part of the business trip, so that already gives you two days. Plus, if you're in meetings or attending a conference on other days, those days would be considered business as well. And there's no reason you can't enjoy some R&R after hours. If you want to have days that are just for personal or family adventures, you can do that as well. You just can't deduct any of the expenses you incur on those days. If you're bringing the family along on the trip, just make sure your expenses are "necessary and ordinary." You can deduct the cost of a single room, but not the cost of a family-sized suite, for example. As long as you document, feel free to rent the suite and only deduct the portion that coincides with a single room rate.

Chapter 5:

Get More Mileage Out of Your Vehicle Expenses

If you need to use a vehicle for business purposes while running your business, you can deduct a wide variety of your vehicle related expenses. The big decision is whether you'll track each of those expenses individually (actual expense method) or if you'll simply multiply the number of business miles driven in the year by the IRS's predetermined mileage rate (standard mileage rate method). For example, with the actual expense method, you would track all expenses, including gas, repairs, insurance, and maintenance. You would total up all these costs you incur throughout the year, and that's the expense amount you'd be able to claim as a tax deduction.

With the standard mileage rate method, you would only track the number of business miles you drove during the year. You would then multiply that number of miles by the IRS's rate, which is 65.5 cents per mile in 2023. So, if you drove 10,000 miles for business, your tax deduction would be $6,550. The standard rate has always been popular because it's easier to track, but the Tax Cuts and Jobs Act just made the actual expense method much more appealing. This is because the actual expense method allows you to include depreciation on your vehicle, and under the newest tax law update, the limits on vehicle depreciation were greatly increased.

Also, bonus depreciation can now be applied to many vehicles. Bonus depreciation allows a business to take additional depreciation expense deduction when a vehicle is first put into use, which could result in huge tax savings. So, if you're still using the standard mileage rate method instead of the actual mileage rate method, you could be leaving thousands of dollars on the table. Additionally, if you have a more expensive vehicle with higher-than-average repair and maintenance costs, the actual expense

method is likely going to be your best bet. You should have your tax strategist do this calculation for you to see which expense method will create the biggest tax-deductible expense for your business.

Chapter 6:

Shrinking Meals Expense Deductions

Meals and entertainment expenses are one of the most confusing changes in the new tax law. In fact, the IRS wasn't clear on what they meant at first and have slowly been putting out clarifications. Meals and entertainment were previously deductible expenses, but the Tax Cuts and Jobs Act cut entertainment out completely. The good news is that meals remain 50% deductible when they have a business purpose. This includes meeting an investor, business partner, vendor, consultant, client, or potential hire. The bad news is that this can make meals at a bar with live music, nightclub, dinner theater, or sports venue tricky since there is an entertainment element involved.

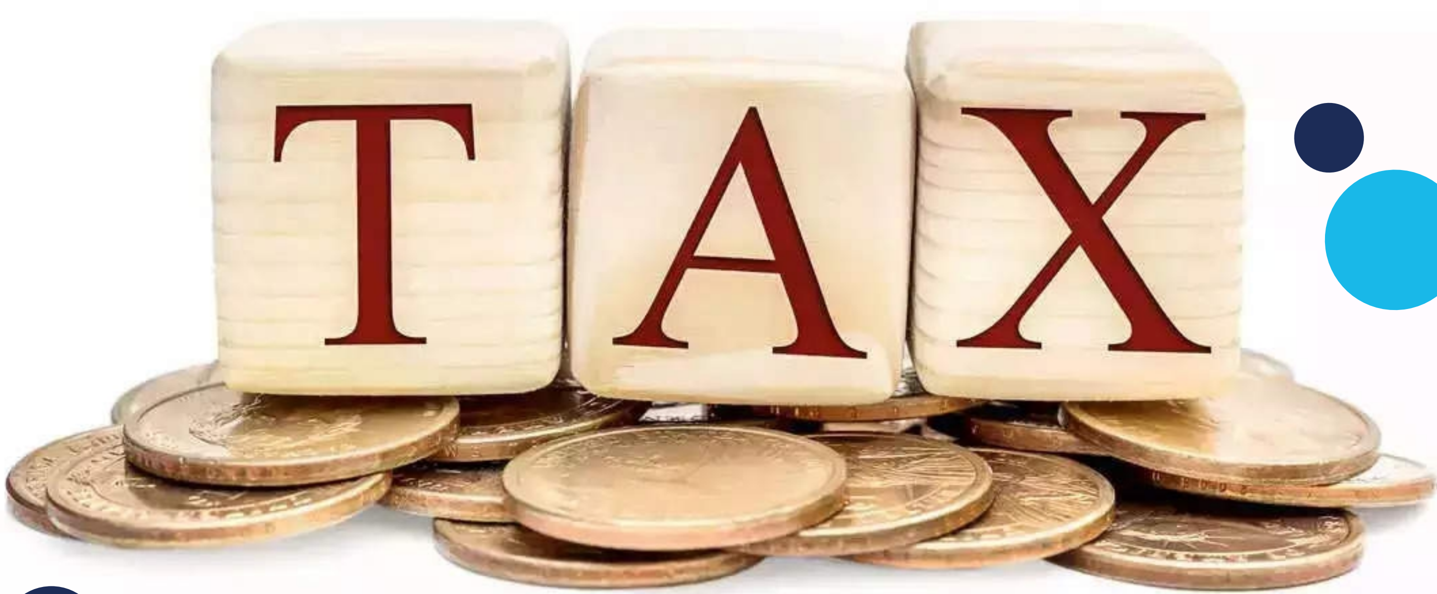
If you go somewhere that could be seen as having an entertainment aspect, keep good notes and talk with your accountant about claiming the meal portion of the expense. If you provide small snacks and coffee in the employee break room, don't worry. These are considered a "de minimis" expense and can be included with your other deductible office expenses.

Chapter 7:

The Perfect Structure for Your Business Activity

Choosing a business entity structure is the single most important decision you can make from a tax perspective, and the new Tax Cuts and Jobs Act has just had a huge impact on the tax implications of your current business structure. This is going to sound a little complicated, and that's okay. There are many EAs, CPAs and tax professionals who struggle with these concepts, so don't feel bad. Just make sure you seek out expert advice.

Under the new tax law, certain kinds of small businesses are allowed to take 20% of the business's profits to be treated as a tax deduction. This new deduction is called the Qualified Business Income (QBI) deduction, and it is intended to even the playing field between larger corporations and smaller companies. Under the new tax law, pass-through entities such as S-Corps and LLCs may qualify for a 20% deduction on qualified business income. This "QBI deduction" was meant to help small businesses and to balance the tax cuts given to corporations, and it could save you thousands in taxes every year. But the deduction has its limits, and if your income is over a certain amount, you may not qualify for the deduction. If your income is higher than the QBI deduction limits, you may want to look into becoming a C-Corporation. Although C-Corps face double taxation (paying at both the corporate and individual levels) the corporate tax rate has been reduced to a flat 21% across all C-Corps. And there are ways to eliminate the double taxation problem altogether. Schedule time to talk with your tax advisor about which business entity structure will give you the best results and keep more of your hard-earned money in your pockets.



Chapter 8:

Holding Real Property, What's Best a C corporation or LLC?

As the real estate market has cooled off in many parts of the country, investing in property may seem wise in the long run.

But taxes can be a significant concern.

Owning real estate in a C corporation may not be wise when considering taxes because it puts you at risk of being double-taxed.

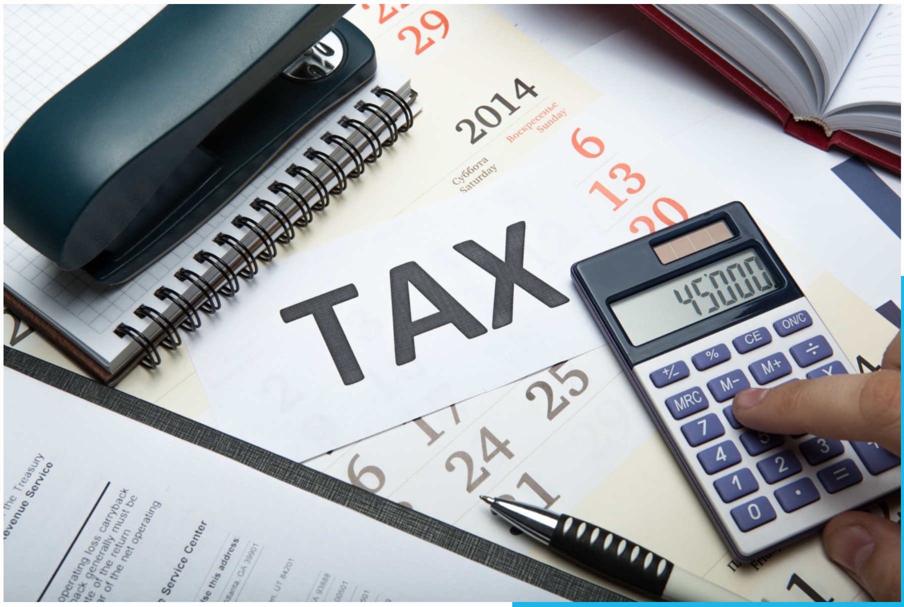
This means that if you sell the property and make a profit, the gain may be subject to taxation twice—once at the corporate level and again at the shareholder level when the corporation pays out profits to shareholders as dividends.

The Tax Cuts and Jobs Act reduced the double taxation threat, but with our current federal debt, you face the risk that lawmakers will hike the corporate tax rates and possibly tax dividends at higher ordinary income rates.

To avoid this threat, I usually recommend using a single-member LLC or revocable trust to hold real property. A disregarded single-member LLC delivers super-simple tax treatment combined with corporation-like liability protection, while a revocable trust can avoid probate and save time and money.

If you are a co-owner of real property, it is advisable to set up a multi-member LLC to hold the property. The partnership taxation rules that multi-member LLCs follow have several advantages, including pass-through taxation.

In conclusion, holding real property in a C corporation can expose you to the risk of double taxation, and I don't recommend it. Instead, consider a single-member LLC, revocable trust, or multi-member LLC, depending on your situation.



Chapter 9:

Electric Vehicles

The IRS recently issued new guidance on electric vehicles. There are four ways you can potentially benefit from a federal tax credit for an EV you place in service in 2023 or later:

- Purchase an EV and claim the clean vehicle credit.
- Lease an EV, and benefit from the lessor's EV discount.
- Purchase a used EV that qualifies for the used EV tax credit.
- Purchase an EV for business use and claim the new commercial clean
- vehicle tax credit.

The new clean vehicle credit is available through 2032, with a maximum credit of $7,500.

To qualify for the clean vehicle credit, you must meet specific criteria, including income limits, vehicle price caps, and domestic assembly requirements. The credit amount for vehicles delivered on or after April 18, 2023, depends on the vehicle meeting critical minerals sourcing and/or battery components sourcing requirements.

If you can't find an EV that qualifies for the credit or your income is too high, you can lease an EV from a leasing company that can claim up to a $7,500 commercial clean vehicle tax credit. The leasing company may then pass on all or part of the credit to you through reduced leasing costs.

For used EV purchases, you can earn a credit of up to $4,000, but you must buy the vehicle from a dealer and meet the law's lower income caps and other restrictions.

Finally, if you purchase an EV for business use, you can qualify for the commercial clean vehicle tax credit, which is not subject to critical minerals or battery components rules, making it easier to qualify for this credit starting April 18, 2023.

To claim an EV credit, the seller must complete a seller's report and provide a copy to you and the IRS. For the clean vehicle credit, you will file IRS Form 8936; for the commercial clean vehicle credit, you will file IRS Form 8936-A.

Chapter 10:

Estate Plan for the Rest of Us

You need an estate plan, regardless of whether or not you are among the ultra-rich. As recent news has shown, even those who have won the lottery or have substantial wealth can fall victim to poor estate planning.

While federal estate taxes may not concern you, you need a will to have your wishes honored after your death. Without a will, state law dictates the distribution of your assets, which may not align with your intentions. Additionally, if you have minor children, a will allows you to name a guardian to care for them in the event of your untimely passing.

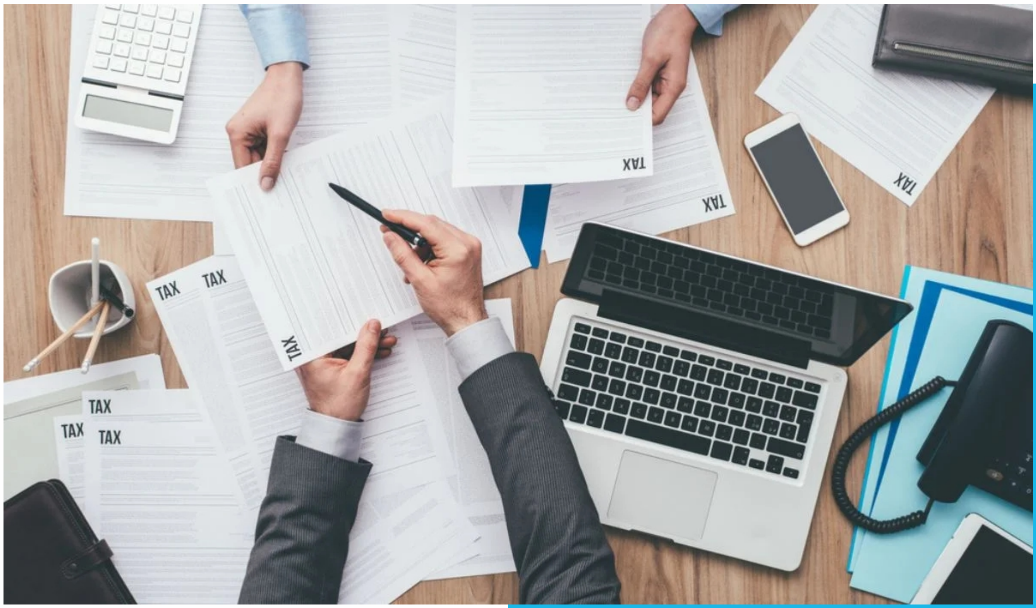
Your heirs will want to avoid probate because it can be a costly and time-consuming legal process. A living trust gives you a valuable tool to avoid probate. By transferring legal ownership of your assets to the trust, you can ensure that your beneficiaries receive them without suffering through probate.

You can amend your living trust as circumstances change, providing flexibility and control over your assets.

It is also essential to keep your beneficiary designations up-to-date, as they take precedence over wills and living trusts regarding asset distribution.

Additionally, if your estate will suffer from federal or state death taxes, you should plan to minimize your exposure.

Estate planning is not a one-time event but a process that you should review and update regularly to accommodate life changes and fluctuations in estate and death tax rules. We recommend checking your estate plan annually to ensure it aligns with your wishes and circumstances.



Chapter 11:

What to Do If the IRS Shows Up Unannounced

If you own a business, it's important to know your rights when it comes to dealing with the IRS. If an IRS agent shows up at your house or business, it's important to remain calm and remember that you have the right to representation.

Here are some reasons why you should ask for representation if an IRS agent pops up at your house:

Protection: Asking for representation can help protect your rights as a business owner. A representative can help ensure that the IRS follows proper procedures and that your rights are not violated during the process.

Knowledge: A representative can provide you with valuable knowledge and expertise. They can help you understand your tax situation and provide you with guidance on how to best deal with the IRS.

Communication: A representative can act as a communication bridge between you and the IRS. They can help you and the IRS. They can help explain complex tax issues to the agent and make sure that all communication is clear and concise.

Negotiation: A representative can also help you come up with a plan to resolve any tax issues and work with the agent to come up with a solution that is fair and reasonable. Overall, it's always a good idea to ask for representation when an IRS agent pops up at your house or business. By doing so, you can ensure that your rights are protected, that you have access to valuable knowledge and expertise, and that you have a clear and effective communication bridge with the IRS. I represent taxpayers with individual and business tax issues. Contact me on my direct line if you would like to discuss a tax matter or use the link below to schedule a time to meet in-person or virtually.

Chapter 12:

Hiring Your Spouse

If you own your own business and operate as a proprietorship or partnership (wherein your spouse is not a partner), one of the smartest tax moves you can make is hiring your spouse to work as your employee.

But the tax savings may be a mirage if you don't pay your spouse the right way. And the arrangement is subject to attack by the IRS if your spouse is not a bona fide employee.

Here are four things you should know before you hire your spouse that will maximize your savings and minimize the audit risk.

1. Pay benefits, not wages. The way to save on taxes is to pay your spouse using tax-free employee benefits, not taxable wages. Benefits such as health insurance are fully deductible by you as a business expense, but not taxable income for your spouse.

Also, if you pay your spouse only with tax-free fringe benefits, you need not pay payroll taxes, file employment tax returns, or file a W-2 for your spouse.

2. Establish a medical reimbursement arrangement. The most valuable fringe benefit you can provide your spouse-employee is reimbursement for health insurance and uninsured medical expenses. You can accomplish this through a 105-HRA plan if your spouse is your sole employee, or an Individual Coverage Health Reimbursement Arrangement (ICHRA) if you have multiple employees.

3. Provide benefits in addition to health coverage. There are many other tax-free fringe benefits you can provide your spouse in addition to health insurance, including education related to your business, up to $50,000 of life insurance, and de minimis fringes such as gifts.

4. Treat your spouse as a bona fide employee. For your arrangement to withstand IRS scrutiny, you must be able to prove that your spouse is your bona fide employee. You'll have no problem if:

- you are the sole owner of your business,
- your spouse does real work under your direction and control and keeps a timesheet,
- you regularly pay your spouse's medical and other reimbursable expenses from your separate business checking account, and
- your spouse's compensation is reasonable for the work performed.

Chapter 13:

Deducting Business Mileage

I am writing today to bring to your attention a crucial aspect of business tax deductions: mileage logs.

In most court cases, taxpayers lose vehicle expense deductions because they cannot present a credible business mileage log. The IRS code forbids deductions for vehicle expenses when taxpayers cannot prove the mileage and provide an adequate record.

Failing to maintain such records could lead to deductions far less than the actual business mileage, potentially resulting in no vehicle deductions at all. In essence, having a mileage log is critical for both proprietors and corporate owner-employees.

Take the case of Jim and Martha Flake. During their IRS audit, they submitted reconstructed calendars, odometer readings, fuel receipts, credit card statements, and other documents. But they created the mileage after the fact, and it contained math errors, thus failing to establish the mileage, time, and purpose of each vehicle use.

The court looked at the Flakes' work and denied their vehicle deductions entirely. It allowed only what the IRS allowed.

The key takeaways from this case are:

- Maintain a mileage log to substantiate your business mileage.
- Stay updated on the basic principles of tax law.
- Operate your business with proper books, checks, records, and receipts to verify income and expenses.

Chapter 14:

A Better Way to Give to Charities

Giving to your church, school, or other 501(c)(3) charity is a noble act no matter how you choose to give.

But for the purposes of tax savings, some forms of giving are much more beneficial to you than others. As a business owner, you can use some business strategies to get the money to these institutions as business expenses.

While this does not change anything from the institution's perspective, it hugely increases your tax savings.

The Tax Cuts and Jobs Act (TCJA) makes it harder to benefit from your personal donations.

Let's say you donate $10,000 to a church, school, or other 501(c)(3) charity:

1. Will you get a tax deduction—in other words, will you itemize?
2. Will you benefit from the entire $10,000 as an itemized deduction? In other words, did the $10,000 simply put you over the hump that beat the standard deduction?
3. Say you can deduct all $10,000 as an itemized deduction. Would making it a business deduction increase the tax benefit value to you?

The TCJA made two big changes that make it less likely that you will itemize. First, the TCJA set a $10,000 limit on your state and local income and property tax deductions. Second, it increased the 2020 standard deductions (adjusted for inflation) to

- $12,950 for individuals, and
- $25,900 for married couples filing jointly.

Even if you make a big donation, think about the problem this creates—suppose you are married and donate $17,000 to charity. If this is your only itemized deduction, your donation does you no good because it's less than $25,900.

Fortunately, there's a much more tax-savvy way to give.

As a business owner, you can make a few modifications and convert your church, school, and other 501(c)(3) donations to a different type of deduction—an ordinary business expense—which increases the tax savings that land in your pocket year after year.

To turn a charitable donation into a business expense, the donation has to be involved in some way in promoting your business. In one way or another, you need to prove that your strategy has as its purpose attracting customers and revenue for your business.

The tax law rule is that your donation must:

- have a direct relationship to your business, and
- create a reasonable expectation for a commensurate economic return.

Here are four examples of successful business practices that benefit charities and create business deductions:

1. In the Marcell case, the owner of a trucking company contributed cash to a hospital because he wanted to impress the chairman of the charity drive, who was a potential customer. The court found that Philip Marcell had a reasonable expectation for a commensurate return on his donation and treated the contribution as a business expense.

2. ABC Company attaches rebate slips to some of its products that it sells to customers. The customers can then present the rebate slips to the charity, at which point ABC Company pays the charity the amount listed on the slip.
3. In Revenue Ruling 72-314, the IRS ruled that the stockbroker corporation that paid 6 percent of its brokerage commissions to the neighborhood charity could deduct the payments as business expenses because there was a reasonable expectation that the arrangement with the charity would direct new business to the brokerage and help retain existing business.
4. Sarah Marquis, a sole-proprietor travel agent, made payments to charities on the basis of business they did with her. She had 30 charities as clients, and those 30 charities accounted for 57 percent of her business.

Chapter 15:

Using a Vacation Home for Business

Here's good news: the properly used business vacation home or condo does not suffer from

- the vacation-home rules,
- the passive-loss rules, or
- the entertainment-facility rules.

In these days of COVID-19, you may have solid reasons to use your vacation home or condo for two purposes only:

- personal pleasure, and
- business lodging.

How Business Use Escapes the Dreaded Vacation-Home Rules

Do you use your business vacation home or condo solely for business lodging?

If so, you escape the vacation-home rules and may deduct your business-lodging costs. The law is very clear on this. The vacation-home section of the tax law, Section 280A(f)(4), states that nothing in the vacation-home rules shall disallow any business deduction for business travel.

Example 1. You use your beach home for overnight business lodging 37 times during the year. You have no personal or rental use of the beach home. Your beach home is a business asset and deductible as such.

One exception to this business-lodging rule. The law does not grant the business-lodging exception to landlords who rent dwelling units. If you have apartment buildings or other residential rentals, staying at your vacation home or condo to look after your rentals does not let you escape the unfavorable vacation-home rules.

Example 2. Fred uses his beach home for 70 nights of business lodging and 30 nights of personal lodging. He has a 70 percent business-use beach home and a 30 percent personal-use beach home.

Planning note. Fred has his tax home where he regularly works, in New Jersey. He travels to his South Carolina beach home location to conduct business in South Carolina. His business activity is what makes his overnight stays at the beach home business stays.

How Rental Use Changes the Landscape

If you rent the vacation home or condo, you really change the tax picture. For example, if you use the vacation home or condo for personal, business, and rental purposes, you could trigger

- vacation-home rules that require a split between the rental- and personal-use deductions;
- vacation-home rules that classify the rental part of your property as either a personal residence or a rental property;
- loss of tax-favored hotel status for qualified rentals; and
- passive-loss rules that defer current tax benefits to future years.

Looking at this list, you might ask, "How can I avoid all these additional considerations and still rent out the vacation home or condo?" Answer: rent for 14 days or less. Technically, that works.

Build Proof

In addition to keeping receipts for the business condo's expenses and improvements, you need to prove how many nights you slept in the vacation home or condo for both business and personal purposes.

Notations on your business and personal calendars are helpful but not conclusive. For your business activities, you want proof of why you had to be at the beach home.

Example 3. Sara sells real estate at both her tax and beach home locations. She tracks her prospects and activities at each location.

Do as Sara does. Also, keep your eyes open for third-party and other corroborative evidence of use. Do you have emails, letters, and other proof of why you had to travel to the beach home? If so, print the emails and save them along with the written letters in your tax file.

Do you have evidence of being in the area, such as gas, grocery, and dining receipts?

Proving use of your business condo is easy and takes very little time. Documentation is essential. Don't pass over this critical step.

Ownership

Do you own the vacation home or condo in your personal name?

If so, and you operate as a

- proprietorship or LLC taxed as a proprietorship, no problem. Simply treat the business percentage as business expenses on your Schedule C.
- corporation, submit an expense report to the corporation to obtain reimbursement.

Why not use a rental arrangement with your corporation? Because you are an employee who likely uses the vacation home or condo for more than 14 days of personal use, you want to avoid a rental arrangement that could cost you your depreciation, repairs, and similar expenses.

The reimbursement method works and creates no complications. Use it.

If the corporation owns the vacation home or condo, you should reimburse the corporation for your personal use to avoid the monies showing on your W-2 and increasing your taxes.

Chapter 16:

Side Hustles: Hobby or Business?

Recent years have seen a rise in the number of people pursuing "side hustles," such as delivery driving, dog walking and online craft selling. Many of these activities could be classified as either hobbies or business ventures, depending on how you pursue them. Since different tax rules apply for businesses and hobbies, it is important to know how the IRS will likely classify your side gig. The IRS considers a variety of questions, including:

- Do you depend on the activity for your livelihood?

- Do you pursue the activity in a professional, businesslike manner, and keep detailed records?

- Is the activity currently profitable for you, and if not, is there good reason to believe it will become consistently profitable in future years?

- Do you have the knowledge and skills needed to pursue the activity as a business?

- Do you approach the activity in a way that shows the intent to make a profit, such as changing methods to boost revenues?

In many cases, business income is subject to both income and self-employment tax, whereas hobbies may be subject to income tax. However, pursuing an activity as a business may enable you to reduce your taxable income by deducting business expenses, such as supplies, business vehicle use, and home office costs. As a tax professional I can help you determine how your side gigs should be classified, and how to account for that classification in your tax planning.

Chapter 17:

Pass-Through Entity Tax (PTET)

We have some critical updates on the pass-through entity tax (PTET), which has recently become the rule in most states rather than the exception.

The PTET enables owners of pass-through businesses, such as S corporations and multi-member LLCs, to navigate around the $10,000 annual limit on state and local taxes (SALT).

How PTET Works

The PTET process is relatively straightforward. A pass-through entity (PTE) can choose to pay state income tax on its business income, which would otherwise pass on to its owners.

The PTE then claims a federal business expense deduction for these state income tax payments. Next, the states allow the owners to claim a credit or a deduction for these taxes, which avoids the SALT limit.

Consequently, owners benefit from the federal deduction against their state income tax and avoid the $10,000 SALT limit on some or all of their pass-through income.

State Updates

Currently, 36 of the 41 states imposing income taxes have adopted some form of PTET. So far, in 2023, Hawaii, Indiana, Iowa, Kentucky, Montana, Nebraska, and West Virginia have enacted a PTET.

Of these, Indiana, Iowa, Kentucky, and West Virginia have made their PTET retroactive to 2022, while Nebraska's new PTET is retroactive to 2018. Hawaii's and Montana's PTETs are not retroactive.

Eligibility

In all states with a PTET, partnerships, S corporations, and multi-member LLCs taxed as partnerships or S corporations are eligible to elect to pay a state PTET. Sole proprietorships, single-member LLCs taxed as sole proprietorships, C corporations, trusts in most states, and LLCs taxed as C corporations are not eligible.

Deadline for PTET Election

No state (except Connecticut) requires a PTE to pay a state PTET; the PTE must elect to do so. The due dates for making the PTET election vary from state to state.

PTET Opt-Outs

In most states, a PTET election is binding on all the PTE's owners, and individual owners cannot opt out. The only exceptions are Arizona, California, New York, and Utah.

Thank You!

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