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The 10 Most Expensive Tax Mistakes That Could Cost You Thousands

If you're like most business owners and professionals, you're *not* satisfied with the taxes you pay. You're *not* taking advantage of every legal deduction, credit, and strategy. And you're frustrated because your accountant isn't giving you the strategies and concepts you need to save tax.

Read this report to discover tax mistakes that cost business owners and professionals thousands, year after year after year. Than call us at 256-270-7248 to learn how to fix those mistakes.

1. Failing to Plan

The first mistake is failing to plan. *Planning* is the key to beating the IRS, legally.

I don't care how good your accountant is with a stack of receipts on April 15. If you didn't know you could set up a Section 105 plan and write off your kid's braces as a business expense, there's nothing you can do on April 15. You lose that deduction forever!

True tax planning gives you concepts and strategies you need to minimize your taxes.
Tax planning gives you two more valuable benefits.

First, it's the key to your financial defenses. As a business owner, you have two ways to put cash in your pocket. Financial *offense* is making more. Financial *defense* is spending less. Taxes can be your biggest single expense. So it makes sense to focus your financial defense where you spend the most. Sure, you can save 15% on car insurance by switching your car insurance. But how much will that really save in the long run?

And second, tax planning *guarantees* results. You can spend all sorts of time, effort, and money promoting your business. But that can't guarantee results. Or you can set up a medical expense reimbursement plan, deduct your daughter's braces, and *guarantee* savings.

We like to start new client relationships with a comprehensive tax plan that lets us start saving you money right away, long before we prepare your first tax return.

2. Wrong Expectations

The second mistake, which keeps people from taking advantage of true tax planning, is holding the wrong expectations. Do you think tax planning means "raising red flags"? Taking advantage of "gray areas"? Being "aggressive" and hoping not to get audited? In fact, it means nothing of the sort.

True tax planning means proactively scouring your business and finances for tax-saving opportunities. Asking questions *before* you make financial decisions to avoid unpleasant surprises. And taking advantage of every legal deduction, credit, and loophole the law allows.

Our tax-planning strategies are all court-tested and IRS-approved. You'll find that with true tax planning on your side, you don't need to raise red flags, shade into gray areas, or be aggressive to keep more of what you

3. <u>Wrong Entity</u>

The next mistake is choosing the wrong business entity. Most business owners and professionals start out as sole proprietor, then go on to establish a corporation or limited liability company. But which corporation? A "C" corporation for employee benefits or an "S" corporation for minimizing employment tax? Limited liability companies can be even more complicated. That's because you can choose whether to pay tax as a sole proprietor, a partnership, a C-corporation, or an S-corporation.

Choosing the wrong entity can waste thousands in tax, year after year, for as long as you operate your business. If you're operating as a sole proprietor when you could take advantage of an S-corporation, for example, you'll pay thousands more into a Social Security system that you probably aren't counting on to finance your retirement. If you're operating as an S-corporation, you might be losing thousands in employee benefits you could deduct if you were a C-corporation. You might even do best with more than one entity, like an S-corporation to minimize employment taxes *and* a C-corporation to maximize employee benefits.

Complicated? You bet! We'll evaluate your business to see which entity makes the most sense for you now. And we'll keep evaluating your business as we work together to make sure you have the best possible structure going forward.

4. <u>Wrong Retirement Plan</u>

Choosing the right retirement plan can be just as challenging as choosing the right business entity. How much do you want to contribute for yourself? How much can you afford to contribute for your employees?

If you're looking to save more than the $5,000 limit for IRAs, you have four main choices: Simplified Employee Pensions ("SEPs"), SIMPLE IRAs, 401ks, and defined benefit plans.

- SEPs are easy to set up and administer. But will a SEP be enough for your needs?
- SIMPLE IRAs are also easy to set up and administer. But will a SIMPLE let you contribute as much as you'd like? What about employee contributions?
- 401ks aren't just for "big business" anymore. Should you consider an "individual 401k" for yourself and your spouse? How much will a 401k cost if you have employees?
- Defined benefit pension plans let you guarantee up to $175,000 in annual retirement income. But defined benefit plans have required annual contributions, and they're harder to manage. Will the benefits make sense for you?

We can guide you through the retirement plan jungle to choose the best plan for your needs.

5. Missing Family Employment

The fifth big mistake for many business owners is missing family employment. Hiring your children can be a great way to cut taxes on *your* income by shifting it to someone who pays less. Then you can use those wages to pay for their private or parochial school tuition, sleepaway summer camp, college tuition, or anything else.

The minimum age for hiring a child is just seven years old. That lets you get started saving early, and even help give them good work habits. Their first $5,850 of earned income is taxed at zero. (That's because $5,850 is the standard deduction for a single taxpayer – even if you claim them as your dependent.)

6. Missing Health Care Strategies

Now let's talk about health-care costs. Surveys used to show that taxes *used to be* small business owners' biggest concern. Now it's rising health care costs.

If you pay for your own health insurance, you can deduct it as an "adjustment to income" on Page 1 of Form 1040. If you itemize deductions, you can deduct unreimbursed medical and dental expenses on Schedule A, *if* they total more than 7.5% of your adjusted gross income. But most of us don't spend that much on healthcare, so we don't get full deductions for what we spend.

What if there were a way to write off medical bills as *business* expenses? There is, and it's called a Section 105 plan, or Medical Expense Reimbursement Plan.

If you qualify, you can write off just about any legitimate medical expense. Health insurance, long-term care coverage, Medicare, and "Medigap" insurance. Co-pays, deductibles, and prescriptions. Dental, vision, and chiropractic care. Big-ticket expenses like braces for your kids' teeth, fertility treatments, and LASIK surgery. Even nonprescription medications and medical supplies, like aspirin and cold remedies.

The best part is, this is money you'd spend anyway, whether you get a deduction or not. You're just moving it from a nondeductible place on your return, to a deductible place. You'll save income tax on whatever you deduct. You may even save self-employment tax too.

7. Missing Home Office Expenses

Home office expenses are probably the most misunderstood deduction in the entire tax code. For years, tax-payers feared it raised an automatic audit flag. But Congress has relaxed the rules, so now home offices attract far less attention.

Your home office qualifies as your principal place of business if: 1) you use it "exclusively and regularly for administrative or management activities of your trade or business"; and 2) "you have no other fixed location where you conduct substantial administrative or management activities of your trade or business." This is true even if you have another office, so long as you don't use it more than occasionally for administrative or management activities.

Claiming a home office lets you deduct the "business use percentage" of your mortgage interest or rent, property taxes, utilities, repairs, insurance, garbage pickup, and security. You'll get to depreciate part of your purchase price. And claiming a home office even boosts your car and truck deductions. That's because it eliminates nondeductible commuting miles for that business.

8. Missing Car and Truck Expenses

Car and truck expenses are easy to overlook. That's because you can take a standard mileage allowance (currently 58.5 cents/mile). But that allowance is the same for all vehicles, no matter how big they are, how much they cost, or how much gas they guzzle. Do you think every car on the road costs 58.5 cents per mile to drive?
It might surprise you to see how much it really costs to operate your car. And it's likely to be more than 58.5 cents per mile! If you're taking the standard deduction for a car that costs more than 58.5 cents/mile, you're losing money every time you drive for business.

Every year, the American Automobile Association ("AAA") publishes a driving cost survey. For 2008, they found small sedans like the Honda Civic cost 35.7 to 55.1 cents/mile. Medium-sized sedans like the Toyota Camry cost 46.9 to 71.9 cents/mile. Large sedans like the Chrysler 300 cost 54.8 to 85.8 cents/mile. SUVs like the Ford Explorer cost 59.1 to 91.0 cents/mile. Minivans cost from 49.1 to 74.9 cents/mile. And that was with gas priced at just *$2.94* per gallon!

9. Missing Meals and Entertainment Expenses

Let's finish up with some fun deductions for meals and entertainment. The basic rule is that you can deduct meals where you conduct a "bona fide" business discussion. This means clients or patients, prospective clients or patients, referral sources, and business or professional colleagues.

So let me ask you – when do you ever eat with someone who's not a client, prospect, referral source, or business colleague? If you're in a business like real estate, insurance, or investments, where you're constantly marketing yourself, You don't even need receipts for expenses under $75. You just need to record the cost of the meal, the date of the meal, the place where it takes place, the business purpose of your discussion, and your business relationship with your guest.

Do you ever entertain at home? Ever discuss business when you do it? Are you deducting those meals, too? There's no requirement that you eat out. So don't forget to deduct home entertainment expenses too!

You can even deduct entertainment expenses if they take place directly before or after substantial, bona fide discussion directly related to the active conduct of your business. You can deduct the face value of tickets to sporting and theatrical events, food and beverages, parking, taxes, and tips.

10. The Biggest Mistake of All

Now that you see how business owners miss out on tax breaks, let's talk about the biggest mistake of all.

What mistake is that?

The biggest mistake of all is missing our tax planning service. Have you all heard the saying "if you fail to plan, you plan to fail"? It's a cliché because it's true. Fortunately, our planning service avoids the problem.

We offer true tax planning. We tell you what to do, when to do it, and how to do it.

Call us at 256-270-7248 for your "1040 Analysis." We'll find any mistakes and missed opportunities that can cost you thousands – then give you a plan for rescuing those lost dollars.

We guarantee it will be the best hour you ever spend on your taxes! You have nothing to lose but opportunity. So call us and schedule your analysis today!