

Top 7 Things You Can Do Before Year End



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#1: Tax Planning Before Year End

- Tax projections to know your exposure?
- Current on estimated tax payments?
- Are your books up to date?
- How do I pay myself?
- Proposed tax law changes that could significantly impact my taxes & what actions I can take now

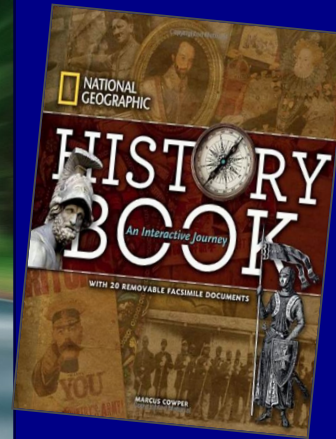
Be Proactive – Tax Planning

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

William H. Rehnquist

Chief Justice of Supreme Court (1986 – 2005)

Tax Prep vs Tax Planning?



Keys to Cutting Tax

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

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

THE POWER OF THE %

How much in revenue do you need to earn to get \$100 in your pocket?

- Assumptions:
 - **30% Business Expense Rate**
 - **33% Marginal Tax Rate**
 - **Leaves a 37% Profit Margin**

ANSWER: About \$270



#2: Entity Choice



C-Corp?

S-Corp?

Partnership?

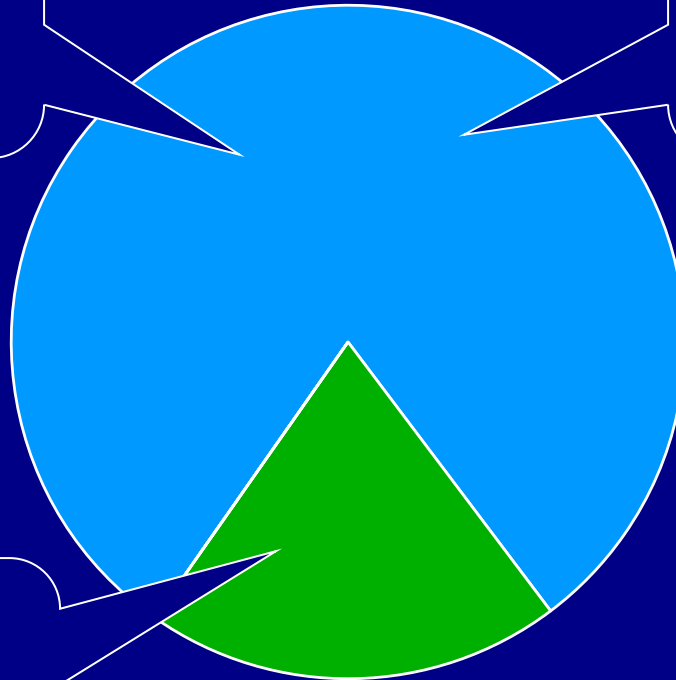
Sole Prop?

Sole Proprietorship

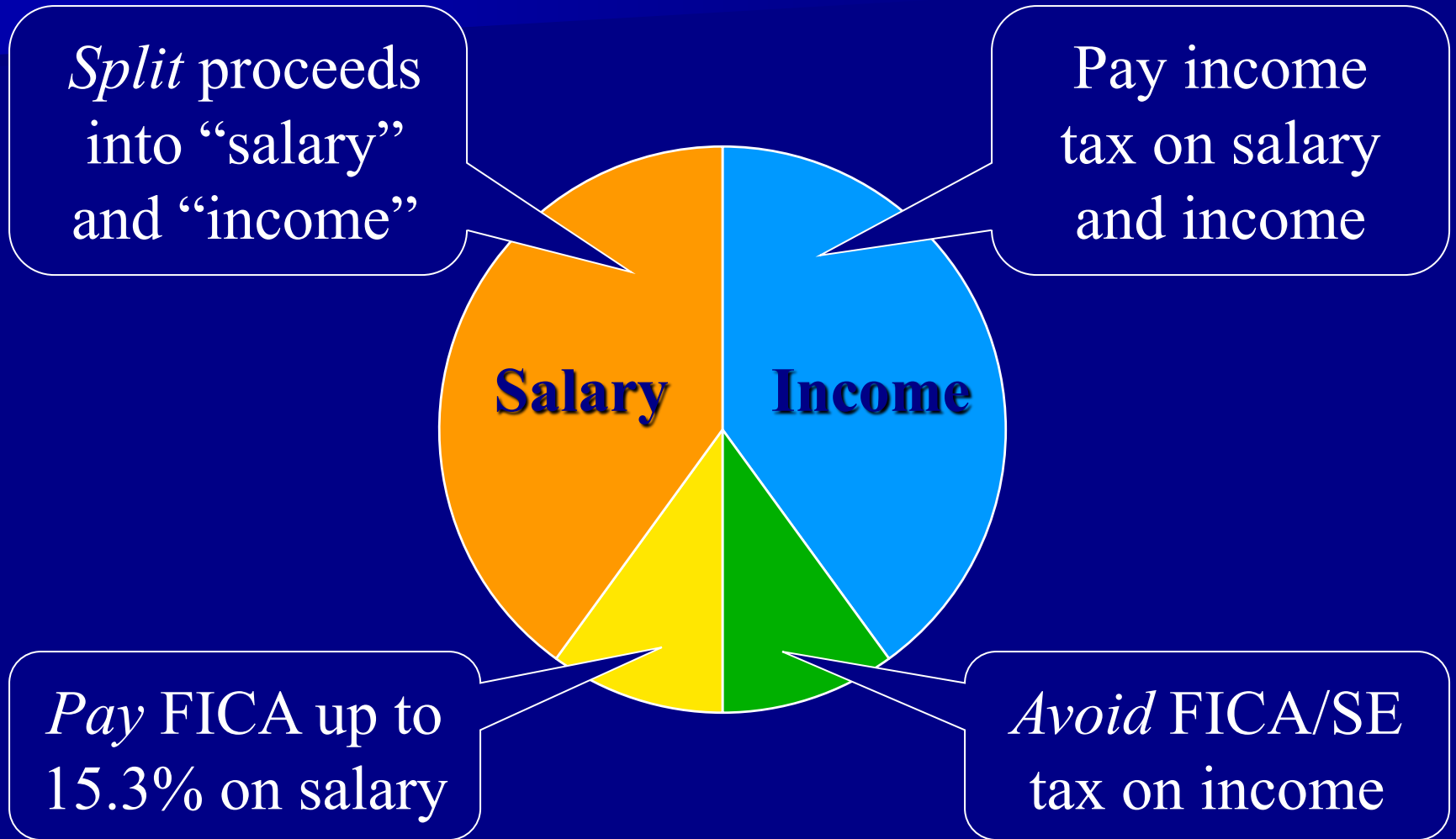
Report net
income on
Schedule C

Pay *income*
tax on net
income

Pay *SE* tax up
to 15.3% on
income



S-Corporation



Employment Tax Comparison

S-Corp FICA	
Salary	\$40,000
FICA	<u>\$6,120</u>
Net	\$73,880

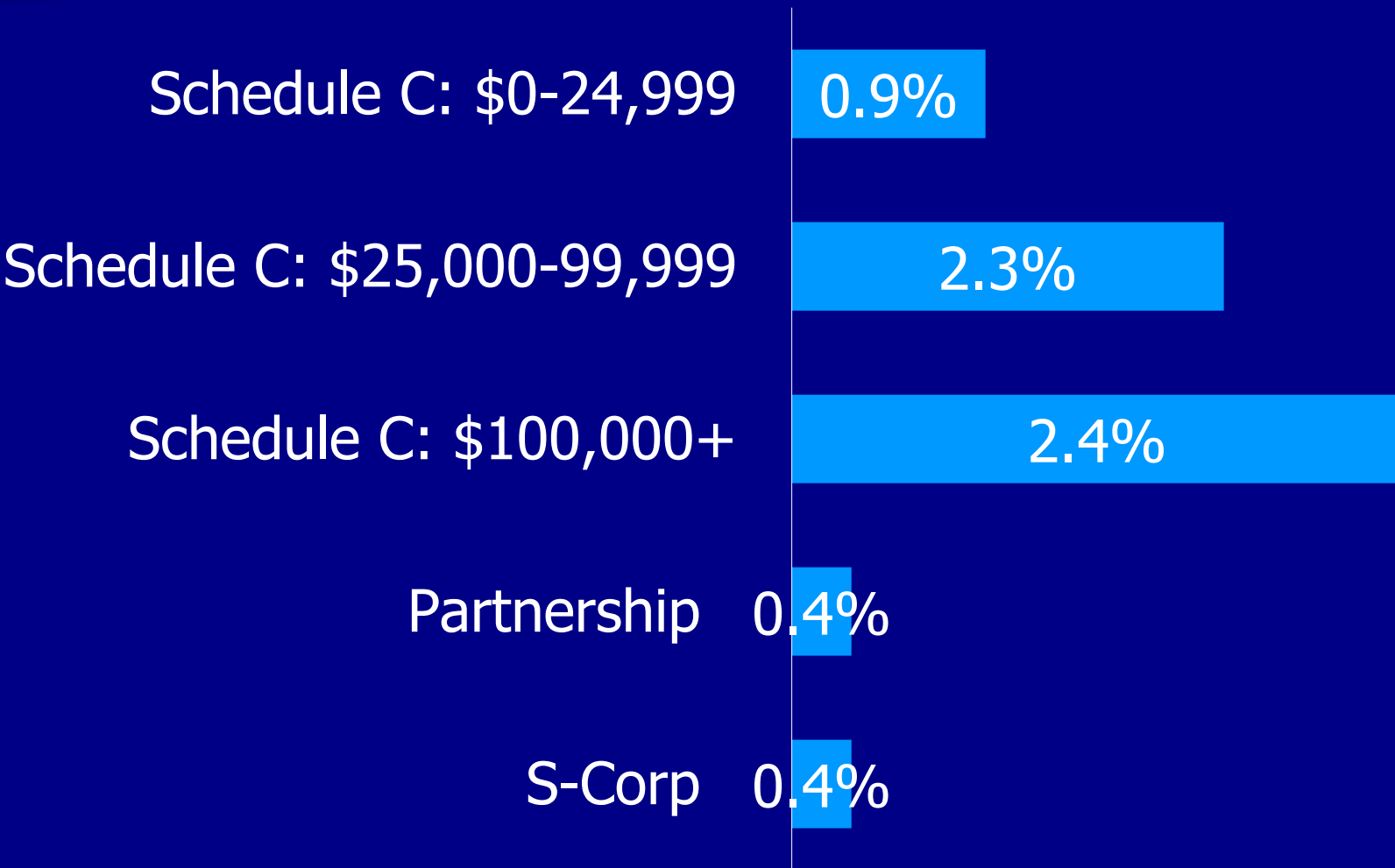
Proprietorship SE	
Income	\$80,000
SE Tax	<u>\$11,304</u>
Net	\$68,696

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

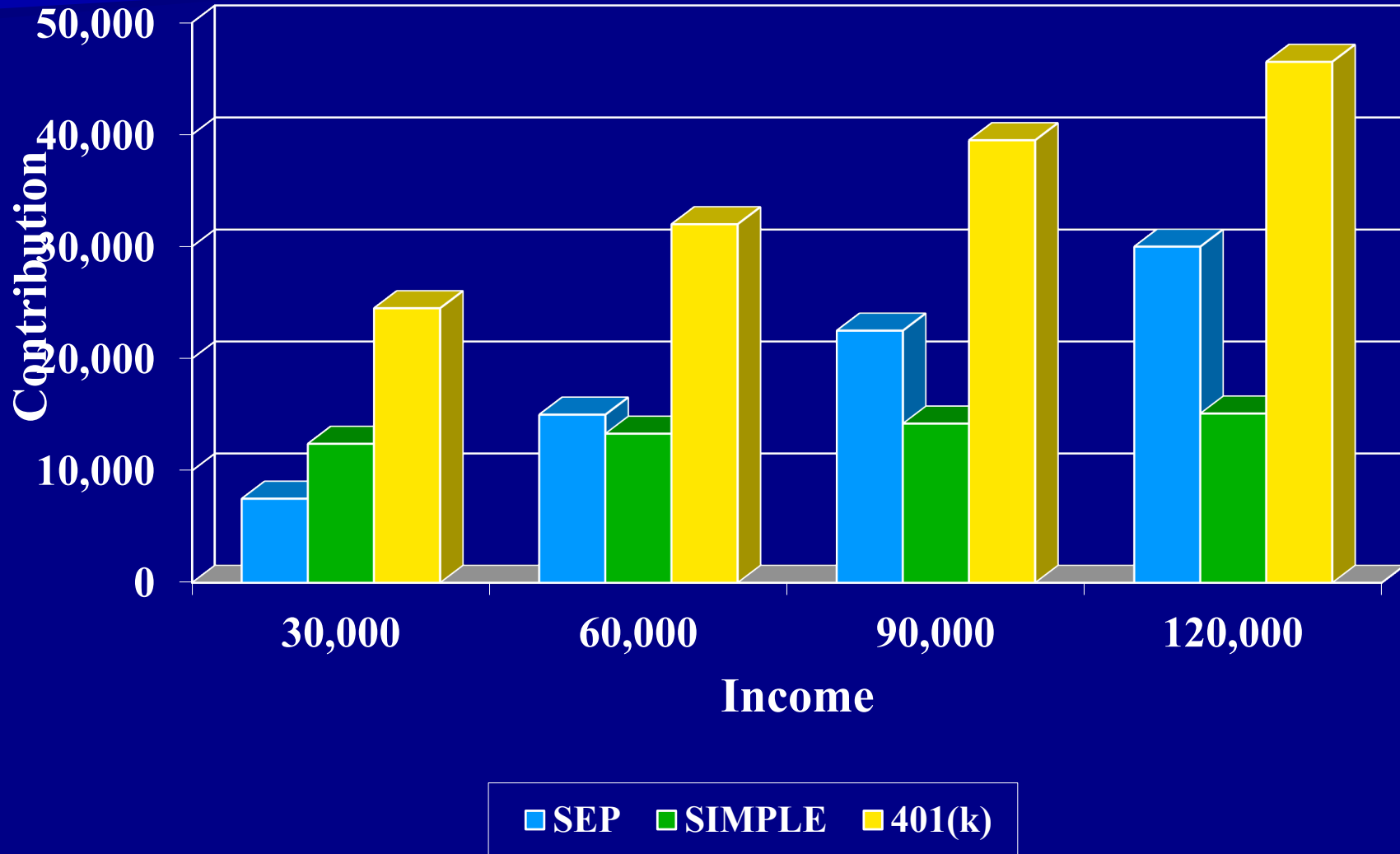
Client tax savings

- A law firm with 4 shareholders
 - Net Income after salaries to officers/shareholders = \$7,000,000
 - S-corp tax savings ~ \$260,000 (due to no medicare tax on distributions)
-
- A Solo Practitioner Law Firm
 - Net Income after salary = \$80,000
 - S-Corp tax savings ~ \$12,000

"Audit Odds"

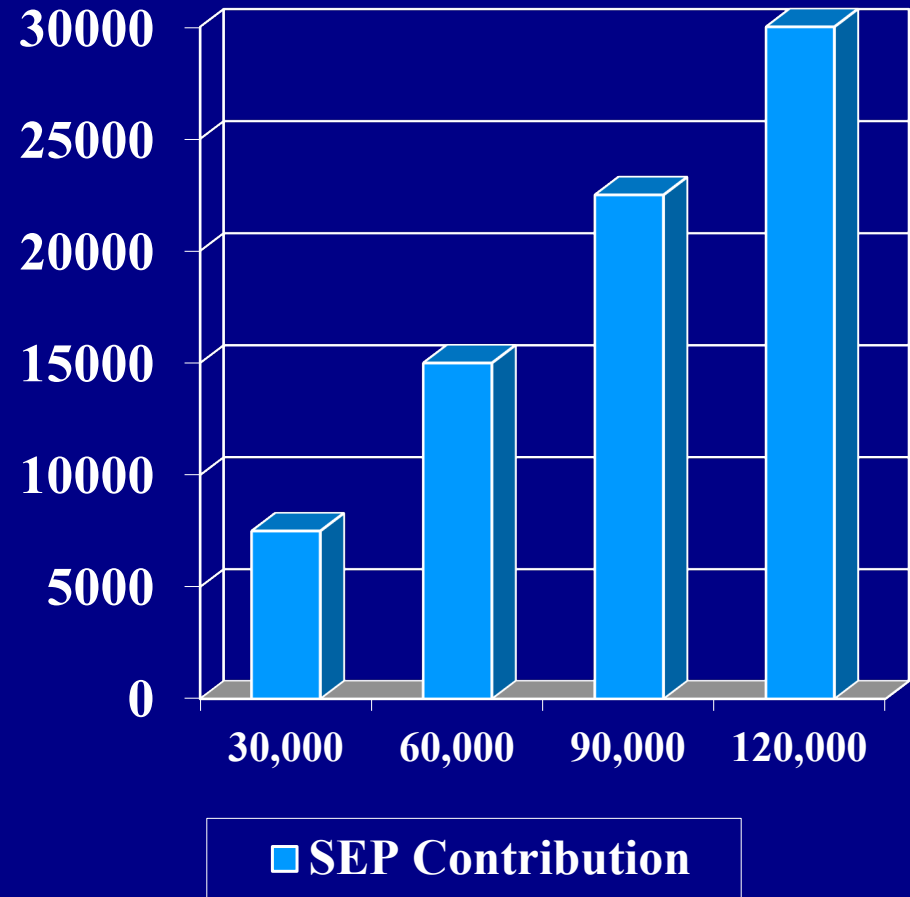


#3: Contribute to Retirement Plan



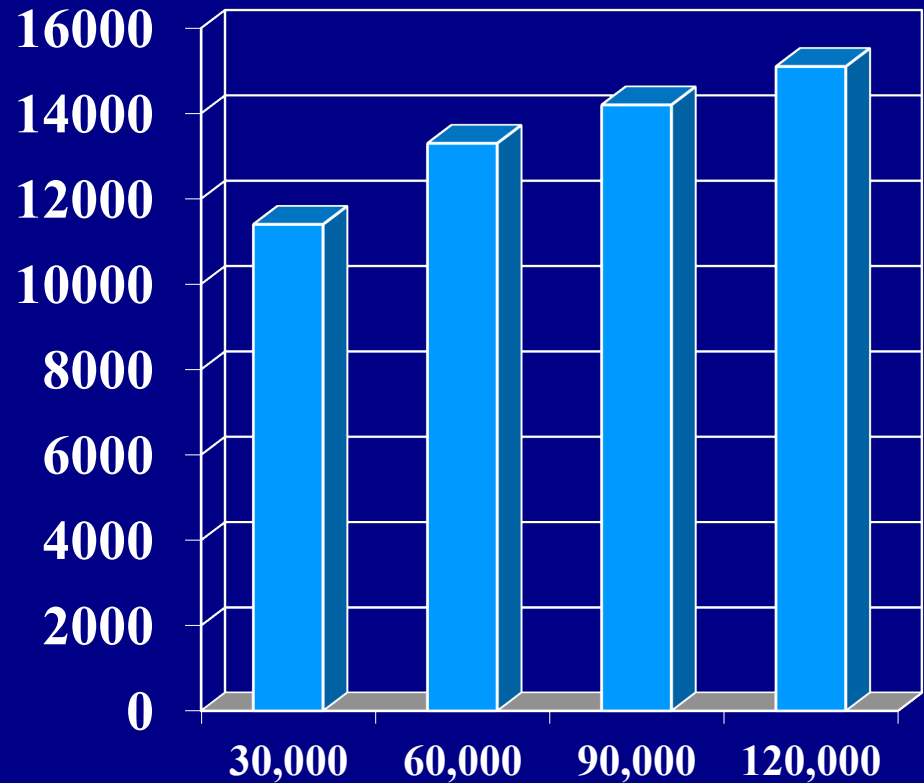
Simplified Employee Pension

- “Turbocharged” IRA
- Up to 25% of income
- \$58,000 maximum
- Must contribute for all eligible employees
- No annual admin
- S-Corp limitation



SIMPLE IRA

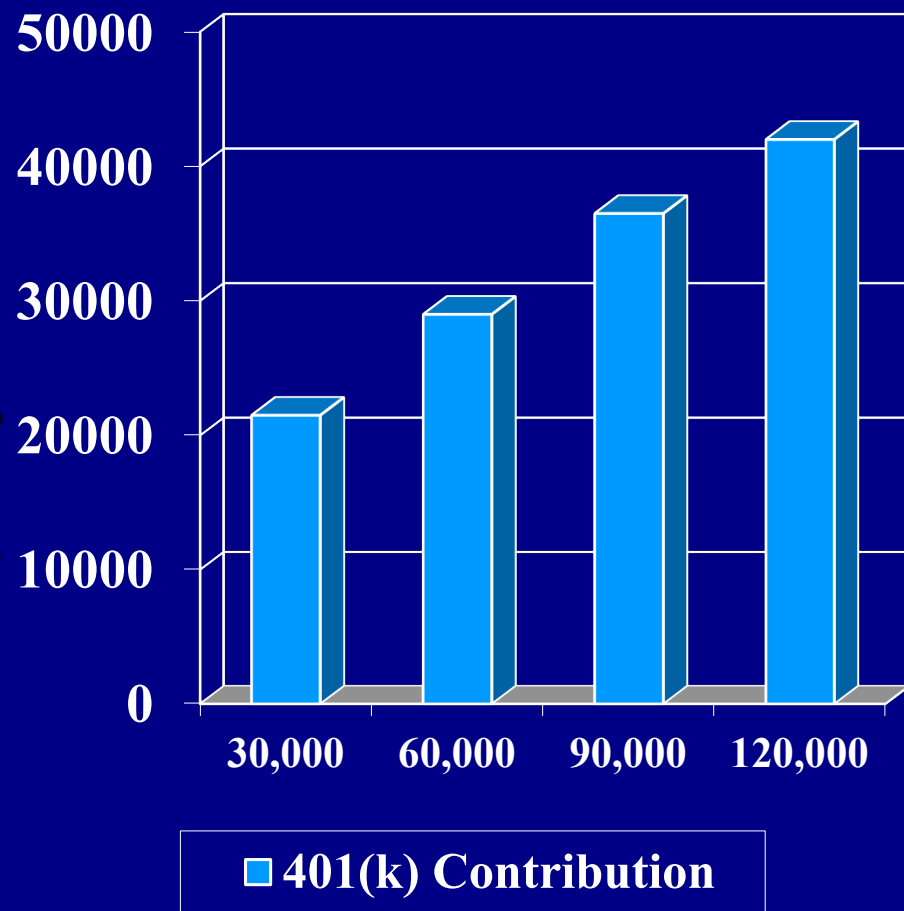
- Defer 100% of income up to \$13,500
- 50+ add \$3,000 “catch up”
- Business “match” or “PS”
- No annual admin
- Best for part-time business with income <\$50,000



■ SIMPLE Contribution

401(k)

- Defer 100% up to \$19,500
- 50+ add \$6,500 “catch up”
- Employer contributes up to 25% of “covered comp”
- \$58,000 maximum
- Loans, hardship withdrawals, rollovers, etc.
- Simplified administration for “individual” 401(k)



#4: Family Employment

- Children age 7+
- First \$12,550 tax-free
- Next \$14,200 taxed at 10%
- “Reasonable” wages – age & experience
- Written job description, timesheet, check
- Account in child’s name
- FICA/FUTA savings

Case Study

A client who hired her daughter to manage her social media and other admin work.

Paid her \$12,000 & she used that to pay for her college expenses

Client saved ~\$5000 in taxes

#5: Medical Reimbursement Plan



"Employee" Benefit Plan

Business Entity	How to Qualify
Proprietorship	Hire Spouse
Partnership	Hire Spouse (if <5% owner)
S-Corporation	>2% Shareholders ineligible
C-Corporation	Hire Self

The “Fine Print”

Nondiscrimination:

- Must cover all eligible employees

- However, you can exclude:

- Under age 25
- less than 35 hours/week
- less than 9 months/year
- less than 3 years service

- Controlled group rules
- Affiliated service groups

The Benefit

- Reimburse medical expenses incurred for:
 - self
 - spouse
 - dependents
- Not subject to 7.5% floor
- Avoid self-employment tax
- Supplement spouse's coverage

Eligible Expenses

- Major medical, LTC, Medicare, “Medigap”
- Co-pays, deductibles, prescriptions
- Dental, vision, and chiropractic
- Braces, LASIK, fertility, special schools
- OTC medications (by prescription)

The "Paperwork"

- Written plan document
- Benefits are "reasonable compensation"
- Verify bona fide employment
- Document payments
- Certification
- PCORI fee - \$2.54/participant

Health Savings Account

1. “High deductible health plan”
 - \$1,400+ deductible (individual coverage)
 - \$2,800+ deductible (family coverage)

Plus

2. Tax-deductible “Health Savings Account”
 - Contribute & deduct up to \$3,600/\$7,200 per year (catch-up contribution \$1000 – age 55 or older)
 - Account grows tax-free
 - Tax-free withdrawals for qualified expenses

Case Study

- A client hired her husband to help with Administrative work, set up Medical Reimbursement Plan for the family which includes her and her kids.
- She had a surgery and her business reimbursed her husband for the family's medical expenses.
- She would have paid for the surgery with post tax dollars
- She saved ~\$5,000 in taxes

#6: Deduct Home Office Expenses



Qualifying 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

Deduct Home Office

- Determine “BUP” of home

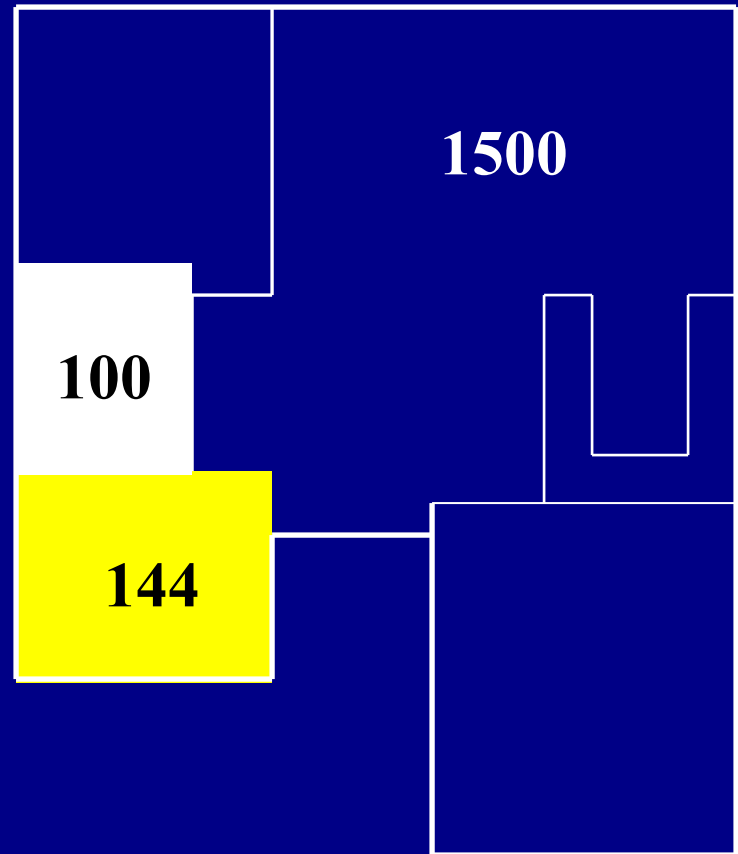
- Divide by rooms
- Square footage
- Eliminate “common areas”

or

- Simplified Method

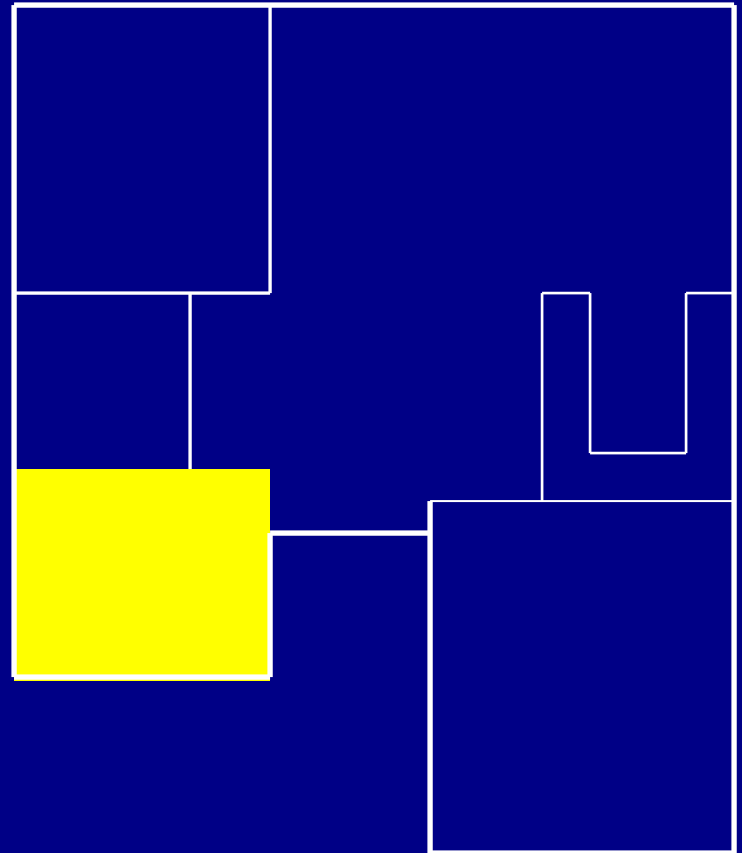
\$5 per Sq ft

Max 300 Sq ft



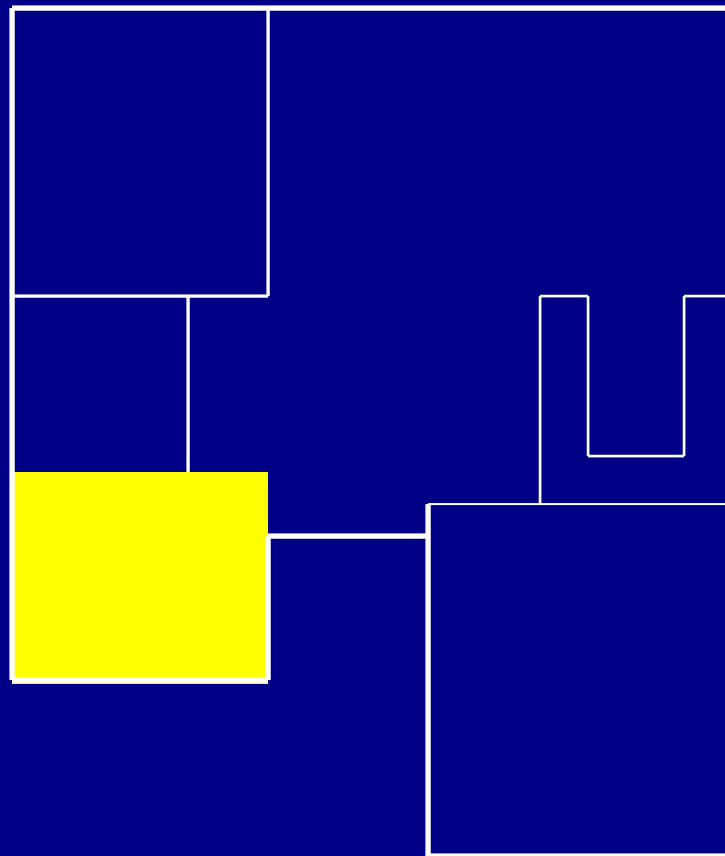
Deduct Home Office

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



Deduct Home Office

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



Case Study

- A law firm with 4 shareholders/partners
- All partners work from home
- Set up an Accountable Plan
- Home office reimbursements saved them over \$10,000 in taxes in 2020.

#7: Business Meals

- *Bona fide* business discussion
 - Clients
 - Prospects
 - Referral sources
 - Business colleagues
- 50% of most expenses
- 100% for 2021 & 2022 under Consolidated Appropriations Act 2021)

Audit Proof Meals:

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

IRS Definition of a Business Expense



A “Business Expense” is an expense that is Ordinary and Necessary for carrying on a trade or business.

Ordinary & Necessary

ORDINARY: Common and accepted in your industry.

NECESSARY: Helpful and appropriate for your trade or business.

An expense does not have to be indispensable to be considered necessary.

In other words...

**If the business spends
money on something . . .**

**. . . will this add to
Current or Future
Profitability of the
business.**



Importance of Tax Planning:

- *True Tax Planning vs Tax Prep*

- Review prior year return to determine if you missed any deductions

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