***Selecting the Right Business Entity.***

***Turbocharging your Small Business***

- Are you satisfied with the taxes you pay?
- Are you confident you're taking advantage of every available tax break?
- Is your tax advisor giving you proactive advice to save on taxes?

If you're like most business owners, your answers are no, no and huh?

And if that's the case, I 've got bad news, and I've got good news.

The bad news is, you're right. You do pay too much tax- maybe thousands more per year than the law requires.

You're almost certainly not taking advantage of every tax break you can. Our tax code is thousands of pages long, with tens of thousands of pages of regulations. There are thousands more pages of IRS guidance, along with volumes of court cases interpreting all those laws, regulations, and guidance. The sad reality is, there's probably no one alive taking advantage of every tax break they're entitled to, simply because there are so many of them out there.

And most tax advisors aren't very proactive when it comes to saving their clients' money. They put the "right" numbers on the "right" forms, "and getting them filed by the "right" deadlines. But then they call it a day. They do a fine job recording the history you give them. But wouldn't you prefer a way to help you **write history.**

The good news is, you don't have to feel that way. You just need a better plan of business. And you've already taken a giant step in that direction, whether you realize it or not. Owning your own business is the biggest tax shelter left in America. Now you just need to take advantage of what you already have!!

I wrote a book in 2014, 10 Most Expensive Tax Mistakes that Cost Business Owners Thousands. I am updating this book to 2024 right now, as we speak, in the book I talk about some of the biggest mistakes that business owners make when it comes to their taxes. I call the process of finding and correcting these business mistakes- “Turbocharging your Business”, we actually, pursue looking for the mistakes you are making in your company, then help you, solve those problems – legally and ethically. This is what we call: Turbocharging your Business.

It is not our intention to make you a tax expert on taxes, but to help you optimize your business and your legal rights as a business owner. Albert Einstein once said “the hardest thing in the world to understand is the income tax, “and if taxes were hard for this guy who came up with the theory of relativity, it’s OK if they are hard for the rest of us.

How we Turbocharge your Small Business: The process.

What does Turbocharger mean: Well, per Wikipedia

The definition, we all know, comes from the internal combustion engine.

In an internal combustion engine, a **turbocharger** (also known as a **turbo** or a **turbosupercharger**) is a forced induction device that is powered by the flow of exhaust gases. It uses this energy to compress the intake air, forcing more air into the engine in order to produce more power for a given displacement.[1][2]

We have borrowed the term, and applied to your Business. You have the power to boost your business, through knowledge of the Internal Tax Code.

## Stop wasting thousands of dollars in tax that you don’t have to pay.

In the course of reading and going thru this workshop, you will most likely discover, some things you aren’t doing as effectively as you could be. Maybe you’re operating your business in the wrong entity, or maybe missing home office deductions you are legally entitled too, possibly missing family medical expenses you clearly could take advantage of. Most business owners don’t realize how important this can be to your bottom line, and your long-term success. -

We review of your prior tax returns, well sit down with you and take the time to walk through those returns, line item by line items. Well look at how you make your money and where you spend it. Then well tie it all together in a comprehensive approach to reduce your taxes. Interview you about your goals and your company, we will ask you to think about where you are going, and your objectives. We will talk in general terms at the beginning, because its important you understand the “concepts” rather than the details or the exceptions, to start, then we develop a customized approach, then train you and your company to optimized levels to take maximum benefits under the tax law. Saving most likely thousands of dollars every year.

Our goal is to ask some pointed questions and get you to look at your taxes with a new eye. You make choices about your tax bill every day. Are you making the right choices?? Or like most business owners and professionals as well, leaving money on the table, wasting money on taxes, that you just simply don’t have to pay??

Supreme Court Justice Oliver Wendell Holmes once called taxes “the price we pay for civilization.” But he never said we have to pay retail!!! Our job will help you find discounts and legal advantages in the tax code, that applied to your tax return.

Driving in your rearview mirror????

**The typical standard approach to taxes for most businesses:**

I don’t care how good you and your tax preparer are with a stack of receipts on April 15th. If you didn’t know you could write off your kids braces as a business expense, there nothing we can do. Remember the last time you drove a car? If you’re like most people, you probably sat down in the driver’s seat, strapped on your seat belt, turned the ignition, put the car in reverse, and then backed your way to your destination, steering by what you could see out the rear-view mirror.

Wait a minute…… you mean that’s not how you do it??

Well…. that’s how most tax preparers work. They spend lots of time looking back at what you did last year. But they really don’t spend much time looking forward. They can tell you all about what you did yesterday. But they don’t tell you what you should do today, or when you should do it or how you should do it. Turbocharging your Business, on the other hand, gives business owners like you two powerful benefits you can’t get anywhere.

Financial Defense:

Financial Offense:

First, it's the key to your financial defense. As a business owner, you have two ways to put cash in your pocket. There's financial offense, which means making more. And there's financial defense, which means spending less. For most of you reading this article, spending less is easier than making more. And for most of you reading this, taxes are one of your biggest expenses.

So, it only makes sense to focus on your financial defense where you spend most of your money. Sure, you can save 15% on car insurance switching to GEICO. But how much will that really save in the long run? Second, spending time with us turbocharging your business, guarantees results. You can spend all sorts of time, effort, and money promoting your business – and you should work this hard, but that still won't guarantee results. Or you can set up a medical expense reimbursement plan, deduct the cost of your teenage daughters' braces, and guarantee savings. Those guaranteed results start with turbocharging your business, you can't ever deduct money you spend on a medical expense reimbursement plan if you don't set it up in the first place.

The Federal Income Tax System:

This will "lay a foundation" for understanding the specific strategies well be talking about in this workshop.

I want to right off the bat, give you a major secret, when it comes to taxes!

Ultimately, there are two kinds of dollars in this world: pretax dollars, and after-tax dollars. Pre-tax dollars are great, because you don't pay any tax on them.

Earn a dollar, spend a whole dollar!!!

After tax dollars aren't bad. If you go to the grocery store to buy dinner for your family, the check -out- clerk won't turn up her nose and say "sorry we can't accept these after-tax dollars.

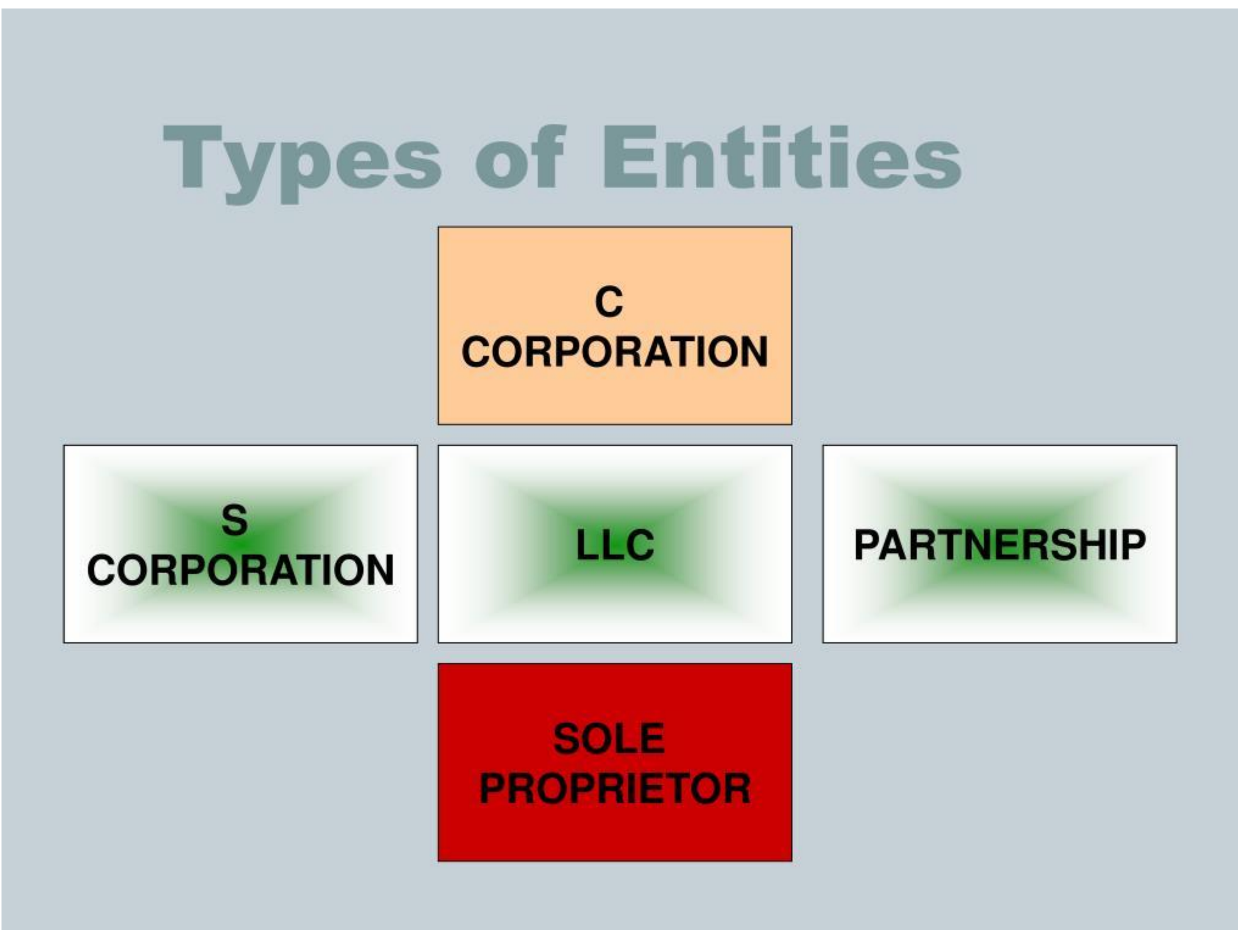
But,

There not as good as pre-tax dollars simply, because you don't get to spend the tax you pay on them.

Here's the Bottom Line: You lose every time you spend after-tax dollars that could have been pre-tax dollars.

We are going to spend the rest of our time, today, discussing how you can convert, after-tax dollars, into pre-tax dollars, taking a larger tax deduction in your business.

Selecting the 'Right" Business Entity:



A big mistake many business make: is choosing the wrong business entity.

Most business owners start as sole proprietors, then, as they grow, establish a limited liability company, or corporation to help protect them from business liability. But choosing the right business entity involves all sorts of tax considerations as well. Many business owners are operating with entities that may have been appropriate when they were established- but just don't work as effectively now.

There are four primary ways you can organize your business, actually five, I will explain.

Proprietorship- is a business you operate yourself, in your own name, or trade name, with no partners or formal entity. You report income and expenses on your personal return and pay income and self-employment tax on your profits. These are generally best for startups and small businesses with no employees in industries with little legal liability. (personal liability).

- The Highest Audit Risk, of any business tax return.
- Inaccurate and bias bookkeeping-
- IRS knows this, and frequent higher audit activity.
- Bias tax returns- nondeductible items frequently found.
- Lack of knowledge of accurate tax deductions (self-prepared)
- Lack of knowledge of asset depreciation rules (self-prepared)
- Tips: Always tie out books and tax returns with bank records.

Partnership- is an association of two or more partners. General partners run the business and remain liable for partnership debts. Limited partners invest capital, but don't actively manage the business and aren't liable for debts. The partnership files an information return and passes income and expenses through to partners. General partner distributions are taxed as ordinary income, and subject to self-employment tax, limited partnership distributions are taxed as "passive "income.

- Complexity Significantly Increases
- Default Tax Form: Form 1065

- However, due to the “check the box” regulations
- Can be taxed as a corporation, - S election applied.
- Accounting is most important. Particularly if you have non family partners- We see high probability of business disputes in the partnership form of business.
- Recommendation: - always use an outside bookkeeping service for partnerships, especially with non-family partners
- Prevents allegations - misuse of money. This form of business is almost like a marriage. Requires attention to details and very good communications.

- C-Corporation- is a separate legal: person, organized under state law. Your liability for business debts is generally limited to your investment in the corporation.
- The corporation files its own tax return, pays tax on profits, and choses whether or not to pay dividends.
- Tax Form 1120- pays corporate tax rates.
- Your salary is subject to income and employment tax; dividends are taxed at preferential rates.
- These are generally best for owners who need limited liability and want the broadest range of benefits. However, the administrative costs and complexities are also the highest.

As your business grows, some grow so large, that you need all the legal protection, possible, this form is best for larger businesses, particularity business with high risk.

Fewer and fewer small businesses are C corporations – due to unfavorable tax rules, and cost of compliance.

S -Corporation- is a corporation that elects not to pay tax itself. We call them pass thru entities.

- Instead, it files an informational return and passes income and losses through to shareholders according to their ownership.
- Your salary is subject to income tax and employment tax (Social Security and Medicare); pass-through profits are subject to ordinary income tax, but not employment tax.
- These are generally best for businesses whose owners are active in the business and don't need to accumulate capital for day-to-day operations.

- This is one of the most popular forms of business.
- S-corporations have been growing significantly for about 20 years now.
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- Flexibility
- Tax Savings * Strategies- (example below)
- Tax Form 1120S
- Is a corporation, requires compliance with State Laws,
- Board of Directors meetings- Shares of Stock.
- Distributions from earnings

  I have an example of how we save taxes in a few pages.

Finally, Limited Liability Company- (LLC), or limited liability partnership (LLP)- is an association of one or more "members" organized under state law. Your liability for business debts is limited to your investment in the company, and LLCs may offer the strongest asset protection of any entity. However, a limited liability company is not a distinct entity for tax purposes. Single member LLC are taxed as proprietors, unless you elect to be taxes as a corporation. Multi-member LLCs choose to be taxed as partnerships or corporations. This flexibility makes LLCs the entity of choice for many startup businesses.

Single member LLC file tax form Schedule C.

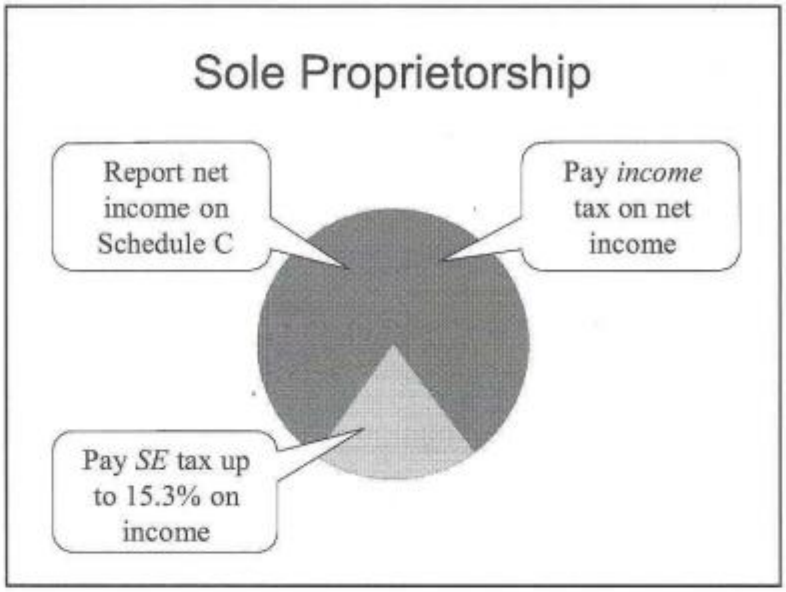
Multi member LLC file tax form, 1065- or 1120S

I can't make you an expert in business entities, not in a workbook like this, but I do want to walk thought one popular choice to illustrate how important this question can be.

If you operate your business as a sole proprietorship, or a single member LLC taxes as a sole proprietorship, you may pay as much in self-employment tax as you do in income tax. If that's the case, you might consider setting up an S corporation to reduce tax.

If your taxes as a sole proprietor, you'll report your net income on Schedule C. (Highest audit rates of the IRS), your all pay tax at whatever your personal rate is. But you'll also pay self-employment tax, of 12.4% on your first $160,200 of net self-employment income and 2.9% if anything above that. Starting in 2013, to current, your also subject to a .9% Medicare surtax on anything above certain income threshold amounts, MFJ 250,000, MFS 125000, Single 200000, Head of Household 200000, and Qualifying serving spouse with dependent 200000.

Let’s look at a detail example of how, powerful, entity structure can be:

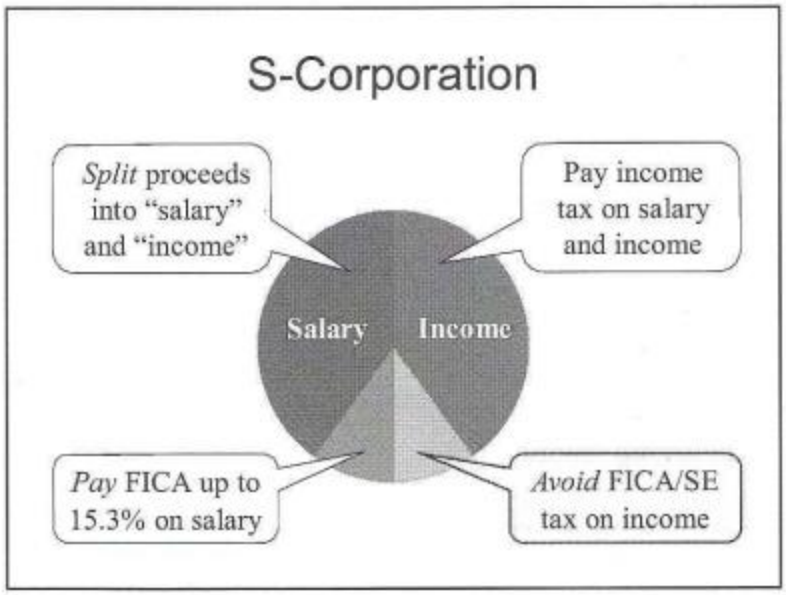



Let’s say your profit at the end of the year is $80,000.00

You’ll pay regular tax at your regular rate, whatever that is.

You’ll also pay about 11,000 in self-employment tax. This employment tax replaces the Social Security and Medicare tax that your employer would pay and withhold if you weren’t self-employed. If you’re like most readers, you’re not planning to retire on that Social Security. You’ll be delighted if it’s still there, but you’re not actually counting on it in any meaningful way.

What if there was a way you could take part of that Social Security contribution and invest this money in yourself? Do you think you could earn more on your money yourself that you can with the Social Security administration? Well, there is, and it's called an S Corporation.




An S corporation is a special corporation that's taxes somewhat like a partnership. The corporation pays you a salary for the work you do. Then, if there's any profit left over, it passes the profit through to your personal return, and you pay the tax on that income on your own tax return. So, the S corporation splits your income into two parts, wages and pass-through distributions.

You'll pay the same 15.3% employment tax on your wages as you would on your self-employment income/ (You'll also pay the extra .9% Medicare tax on self-employment income exceeding 200000, or 250000 depending on whether you file alone or jointly) But- there's no Social Security or self-employment tax due on the dividend pass through amount!!! This makes a world of difference.

### Employment Tax Comparison

| S-Corp FICA | | Proprietorship SE | |
|---|---|---|---|
| Salary | $40,000 | Income | $80,000 |
| FICA | $6,120 | SE Tax | $11,304 |
| Net | **$73,880** | Net | **$68,696** |

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

Let’s say your S Corporation earns the same $80,000 as your proprietorship. If you pay yourself $40,000 in wages, your pay about $6120 in Social Security tax.

But!!!!- you avoid employment tax on the income distribution. And that saves you $5,184 in employment tax you would have paid without the S Corporation.

The best part here is that you just pay less tax. It’s not like buying equipment at the end of the year to get big depreciation deductions. That may be a great strategy, but it also means spending something on the equipment to get that depreciation. Is not like contributing money to a retirement plan to get deductions. That may be another great strategy, but it also means you have to take money out of your budget to contribute to the plan.

Now, you still have to pay yourself a “reasonable compensation” for the service you provide as an employee in other words, the salary you would have to pay to hire an employee to do the work for you. If you pay yourself nothing, or merely a token amount, the IRS can and will recharacterize up to all of your income as wage and hit you with some very hefty taxes, interest, and penalties. So don’t get greedy!!! But according to IRS data, the average S corporation pays out about 50% of its income in the form of salary, and 50% in the form of distributions. So, you can see that there’s at least a possibility for real tax savings.

- Disclaimer: Any accounting, business or tax advice contained in this communication, is not intended as a thorough, in-depth analysis of specific issues, nor a substitute for a formal opinion, nor is it sufficient to avoid tax –related penalties. If desired, Michael W Johnson, CPA, PLLC, would be pleased to perform the requisite research and provide you with a detailed written analysis. Such an engagement may be the subject of a separate engagement letter that would desire the scope and limits of the desired consultation, services.

- While we are, of course, available to provide you with (accounting, tax and business planning) services, it is our policy to put all advice upon which a client might rely into a written memorandum prior to you relying on such advice.
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- We believe this is necessary to avoid confusion and to make clear the specific nature of our advice for your particular business facts and circumstances. You should not rely on any advice that has not been put into writing for you. Specifically addressed to your particular business needs.