

The Untold Secrets To Cost Cutting & Tax Savings for Business
Irwindale Chamber of Commerce
Business Solutions Workshop
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As a service of the Irwindale Chamber of Commerce, this free report is provided as part of the Business Solutions program with the generous support of member Steven Sorell, esq.

Mr. Sorell brings a valuable and rare set of experience to our community. With CFO experience for over 20 years, an MBA, Enrolled Agent experience for over 20 years, and a growing law and accounting practice over the last 8 years, you will not find a more knowledgeable person on the subject of cost cutting and tax savings. Mr. Sorell is a member of the California Bar Association, the American Institute of Certified Public Accountants, and the Irwindale Chamber of Commerce.

Top Business Tax Planning Tips and Opportunities for 2008 and 2009

Effective tax planning is a challenging task, even under the best of circumstances. The current economic environment and the upcoming change in administration make sound planning even more important but even more challenging and uncertain.

There are many opportunities for both Federal (IRS) and California tax planning that are currently available for both this year and 2009. Take advantage of them and don't pay any more in taxes than you need to!

The tips discussed here are available for the self-employed and small business owners. There is a companion report with important opportunities for wage earners.

The following is a brief outline of often-overlooked tips and opportunities. The rules applicable to each are complex and this presentation can only identify the main areas for further inquiry. Always consult your tax and/or legal advisor beforehand.

Businesses & Self-Employed Individuals

1. Capital asset purchases qualify for immediate expensing under § 179, rather than depreciation over a period of years.
2. Automobiles may not be expensed fully under § 179, but additional first year "bonus" depreciation is still available.
 - Up to an additional \$8,000 may be expensed in first year for heavy SUV and luxury cars
3. Business-related automobile usage is deductible. Taxpayers may choose to either take a standard cents-per-mile deduction or actual expenses.
 - IRS allows 50.5 cents per mile for January-June 2008 and 58.5 cents per mile for miles in the second half of the year.
 - Actual expenses include depreciation (or lease payments) and items related to auto care, such as car washes
 - Taxpayers can choose between either method each year, provided that cents-per-mile is the method used in the first year.
4. Consider the lease vs. buy decision for an automobile. Leasing rates may be an attractive alternative.
 - The majority of the business-related lease payment is deductible
 - If there is a "capitalized cost reduction" that amount can be separately amortized over the life of the lease; often overlooked.

5. Medical insurance premiums are fully deductible by self-employed individuals. They may also be deductible by owners of corporations and S-corporations, but more complicated rules apply.
 - May have to provide coverage for eligible employees
6. Medical expenses not covered by premiums (deductible, co-pay, non-covered expenses) may be deductible through allowed reimbursement programs.
 - HSA (health savings account) work with high deductible plans and allow taxpayer to set aside up to \$5,500 per year (less if single)
 - HRA (health reimbursement account) provide for nearly unlimited contributions by employer. Amount is deductible to employer, not taxable to employee
 - Larger corporations may find it beneficial to set up a § 125 cafeteria plan, which allows pre-tax contributions by employee to be used for medical expenses and qualified child care
7. A VEBA (voluntary employee benefit association) is an aggressive plan that may allow a business to deduct a broader array of expenses that may not otherwise be permitted, such as life insurance.
 - A VEBA has costs to establish and maintain, and may not be appropriate for all businesses.
8. Pension contribution opportunities are significantly greater for businesses and self-employed.
 - Must establish the appropriate account prior to 12/31, even if it is not funded until the following year
 - May contribute up to \$45,000 under SEP IRA, Keogh or Self-employed 401-k plans (more if over 50)
 - Defined benefit plans allow for even higher contributions (\$90,000 or more)
 - Employees other than owner generally required to have contribution made on their behalf, but at a reduced amount.
9. If your business is located in a designated California “Enterprise Zone” it may be eligible for substantial California tax credits.
 - Employers may receive up to \$37,000 in state tax credit for each qualifying employee. To qualify, employee must live in designated area, have low income or otherwise qualify (vet, ex-offender)
 - Sales tax paid for equipment can be claimed as a credit
 - Bonus California depreciation available
 - Irwindale is NOT in an Enterprise Zone (EZ)

- Pasadena/Altadena has an EZ. Other local EZ include parts of Los Angeles, Long Beach, Santa Ana, Santa Clarita and Antelope Valley
10. Review property tax bills. Property used in business is assessed a property tax, but applicable rules are different than those used for income tax accounting.
- Businesses sometimes dispose of property but fail to take them off the books because they are fully depreciated for tax purposes. But they are still subject to property tax
 - Some capital assets are exempt from property tax (fire suppression equipment, certain ADA compliance expenses, certain software)
11. If your business has substantial plant and buildings, consider a cost segregation review.
- A plant or building can be disaggregated into its component parts, many of which are eligible for more favorable depreciation treatment
12. Federal Research & Development credits may be available, for up to 20% of qualified expenditures.
- Many activities can constitute qualified R&D, including computer programming and design activities

Business Structure

The foundation on which many tax planning opportunities is based, as well as many important legal and estate planning considerations, is the choice of the legal and tax form under which you choose to do business.

The choice of entity may have important tax consequences over the life of the business

- Sole proprietor
- Corporation
 - C-Corporation (or “regular” corporation)
 - S-Corporation election
- Limited Liability Company (LLC)
- Limited Liability Partnership (LLP)

A full discussion of these choices is beyond the scope of this presentation.

A few points to consider:

- Each of these formats has formation costs and annual minimum tax costs (except sole proprietor)
- The minimum tax of \$800 is due each year, regardless of the profitability of the entity. This payment is due a month earlier beginning in 2009 (March 15)

- Do not be fooled by ads suggesting that a Nevada corporation will allow you to avoid any of these taxes
- The choice of entity may also be influenced by the type of business. For example, in California you cannot use a LLC if your occupation requires a specific license (e.g. accountants, lawyers, doctors, architects cannot form LLC), but they may use an LLP form if there are partners.

Estate Planning

No part of the tax law is more uncertain than estates. Current rules are very favorable, but expire after 2010 and revert to comparatively harsh limits. Given the uncertain economy and the new administration, it is unlikely that substantial relief in the form of “tax relief for the rich” will be forthcoming.

This subject area is far too complex to be covered in this presentation.

1. Current rules permit a decedent to pass \$2 million dollars tax free to his or her heirs. That exemption amount will increase to \$3.5 million for decedents dying in 2009, with an unlimited exemption in 2010.
 - Unless modified by Congress, the exemption amount will decrease to \$1 million for decedents dying in 2011 and thereafter.
2. The tax bite on amounts in excess of the exemption is 45%, and will increase to as high as 55% in 2011 and thereafter.
3. Larger estates can do much to minimize or avoid this substantial tax bite through the effective use of family trusts.
 - The family trust is the basic building block of an estate plan, and can be supplemented by other techniques such as gifting, FLP, special trusts
4. ***Even modest estates should have a trust.*** Without a trust, an estate passing to children will be subject to probate. In California, a probate can cost 5% to 8% of the total estate value, and the estate property may not be available for as long as two years.