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## **Subject: Small Biz Owner Tax Savings**

**The following list of 10 ways in which small business owners can save income taxes was compiled by Shaub CPA Group, who is affiliated with AccuPay and provides CPA/advisors to AccuPay for technical tax issues in the payroll and fringe benefit area. The CPAs of Shaub CPA Group collectively have over 100 years of tax planning experience.**

### **TAX TIPS – PART 1 of 2**

- (1)** Owners of “S” corporations should generally establish their salaries at the lowest “reasonable” levels. The “S” corporation and employee-owner pay FICA/Medicare taxes on wages/salaries, but not on “S” distributions/dividends;
- (2)** An individual’s spouse claims social security retirement benefits at the greater of his/her own social security account OR 50% of the spouse’s social security benefit amount. A common misconception is that a business owner’s spouse should “go on the payroll” from age 50 to 60 in order to build up his/her social security account. This generally is a very poor decision in which FICA/Medicare taxes are paid into the spouse’s account which generates no increase in otherwise available social security retirement benefits. Compensating the business owner’s spouse for services should be considered if your financial objective is maximum funding of your business’s 401k/profit-sharing plan;
- (3)** One of the most effective “tax shelters” for a business owner is selection of a “qualified” retirement plan. The qualified plan should be custom-designed to meet your specific objectives as to the level of owner pension funding, costs for employee participation, complexity of administration, flexibility as to annual funding requirements, and the like. It is common that the best plan choice for your business today will change as your business income and employee profit changes in future years (along with tax law changes);
- (4)** Many small businesses involve the time and efforts of various family members. A very common tax planning strategy is for a high income business owner to compensate children, parents and other relatives, which shifts income and the associated tax burden to

lower tax bracket family members. It is important that a business owner can justify family payroll amounts as “reasonable” based on the value of the services. Putting family members “on the payroll” is an excellent tax-deductible way in which to provide financial support to children and parents; and

- (5) The very best way for a growing small business to minimize income tax obligations is to continually spend money to grow, improve and strengthen your business. Monies spent on prudent business expenses are tax-deductible and therefore lighten your tax load. Every small business owner should have a “list” of costs/expenses which will grow and improve their business. These expenses often include equipment, hiring talented people, education and training, marketing and promotions, consulting fees, etc.

**You should consult with your CPA/tax advisor about the application of these tax strategies to your unique tax structure and fact pattern.**

**NOTE – Part 2 of this PayDay will list tax planning steps #6-10, and will be e-mailed within the next few days.**

PayDay is an email communication of payroll news, legal updates and tax considerations intended to inform clients and colleagues of AccuPay about current payroll issues and planning techniques. You should consult with your CPA or tax advisor before implementing any ideas, comments or planning techniques.