



Subject: Biz Owner Tax Savings – Part 2

Our previous PayDay detailed 5 tax strategies which savvy small business owners use to reduce their income tax burden. This PayDay completes Shaub CPA Group’s list of 10 ways in which small business owners can save taxes.

TAX TIPS – PART 2 of 2

- (6) Employee fringe benefits provided as part of a written Section 125 “cafeteria” plan save taxes for both the employer and employees. A Section 125 plan enables employee payroll deductions for health insurance, HSA accounts, flexible spending accounts, etc. to be “pre-tax” for both income and FICA/Medicare taxes. Each employee saves income and payroll taxes, and the employer is not required to “match” the 7.65% “employer share” of payroll taxes;
- (7) Business expense reimbursements made to employees, including owner-employees, should be made pursuant to an “accountable expense reimbursement plan”. Such a plan requires that the employee document/prove the expense reimbursement request, and the employer reimburse the exact documented expense request.

Reimbursements made pursuant to an “accountable expense reimbursement plan”, including business vehicle expenses, are deductible to the employer and non-taxable to the employee. A fixed “allowance” for business vehicles, supplies, etc. is taxable for income and FICA/Medicare taxes, and the employer is required to “match” the FICA/Medicare taxes. An employee’s actual unreimbursed business expenses, including those paid from an “allowance”, are subject to deduction limitations on a personal tax return. Every “dime” of a business owner’s business expenses should be reimbursed from the business bank account;

- (8) Most businesses require one or more vehicles to transport employees, including owner-employees, on business trips, to project sites, conferences and the like. Savvy business owners keep excellent records of business driving and vehicle operating expenses in order to claim business vehicle deductions which will “hold up” under audit. Most small business owners buy or lease vehicles in the company name and pay all vehicle

expenses from the company bank account. Personal use of each vehicle is “tracked” and reported on the employee’s W-2 form, (based on IRS tables). Reporting “personal use” on your W-2 tells an IRS auditor that you are attempting to properly claim business vehicle expense deductions;

- (9) A very recent PayDay (all of them are archived on our website) instructed “S” corporations to directly pay or reimburse the health insurance of their “on the payroll” “S” corporation owner-employees. The IRS has made it clear that they will challenge tax deductions for “S” corporation owner-employees which are not paid by the corporation. With monthly insurance premium amounts of \$1,000 - \$1,500 being common, every owner of an “S” corporation should pay health insurance in the manner instructed by the IRS. If you personally paid insurance premiums earlier in 2009, get reimbursed from your “S” corporation; and
- (10) “Work opportunity tax credits” can save enormous amounts of income tax for businesses which hire employees who often have difficulty obtaining employment. Tax law details several categories of new hires eligible for the “WOTC”, which often include food stamps, disabled veterans, “welfare” households, and youth ages 16 - 25 who are “disconnected” and unemployed. People who qualify for the tax credits can be found everywhere, but are common in low-paid unskilled jobs. Large employers such as Walmart claim millions of dollars annually in WOTC tax credits, whereas most smaller employers do not claim the hiring tax credits due to lack of awareness and know-how. **AccuPay provides “WOTC” tax credit consulting and processing services to employers. Call Tamara Clookey, CPP at 885-7600 if you think you are overlooking these tax credits.**

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

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.