



**Discover The Secrets Of..**



**By: Arron Bennett | CFO**

# Why Tax Advisory

## Tax Advisory vs. Tax Preparation

Before we jump into the benefits and deductions of an S-Corp, I'd like to introduce you to the world of tax advisory.

**Tax Advisory is not a new concept** but it is practically not utilized by small businesses. You see, everyone thinks that Tax Advisory is for big players, multi-millionaires, big fish as they call them. That is a huge misconception. I always say, ***"If you are profitable in your business, there is money to be saved on taxes. Simple"***.

**Tax Advisory is not Tax Preparation and it will NOT work if it is done at the end of the year** or at the time of filing your taxes. Tax Advisory means **being PROACTIVE**. The reason why a lot of people are not able to take advantage of so many and again so many tax strategies **is because they fail to be proactive about it**. They, most often than not, **wait until the end of the year** only to be slapped with a tax bill. They are at the mercy of their tax preparer who very often answers the following:

"There is nothing else that can be done, you made too much money and that is a good problem to have."

**That is simply not true.** I know this because I work with business owners in this situation and I help them significantly reduce their taxes via proper tax planning and using little known LEGAL tax strategies. **My clients are able to save tens of thousands of dollars on taxes**, and create millions of dollars in TAX FREE income. Yes it is true and it is possible.

**So, let's get right into S-Corp Benefits & Deductions.**

# Basics of S-Corp

## What is an S-Corp?

S-Corp is a separate legal entity distinct from its owners. It is widely used by small business owners to save money on taxes but also provides a liability protection for its shareholders.

S-Corps have some limitations:

1. Can only have one class of stock.
2. Not more than 100 shareholders
3. Be a domestic corporation
4. The shareholders must be either US citizen or legal residents of the United States

# Basics of S-Corp

## S-Corp Taxation

An S-Corp must file a separate tax income tax return on form 1120S but it does NOT pay its own taxes. Instead, here is a simple breakdown:

- All net profit from an S-Corp is passed-through to it's shareholders via K-1
- The net profit reported on a K-1 for each shareholder is then reported on the shareholder's personal tax return, after which:
- Shareholder pays his/her share of taxes depending on his/her tax bracket on the income received from the S-Corp.

### Important!

- S-Corp is ALWAYS required to file its taxes even if there was no activity during the year. Penalty for not filing a timely tax return is \$195 per shareholder up to 12 months.
- S-Corp tax return (Form 1120S) must be filed by March 15 of each year. When the 15 falls on a weekend, the return is due the following business day

# Basics of S-Corp

## Making S-Corp Election

In order for you to make an S-corp election you must first either:

- Form a domestic US-Corporation
- Organize a Limited Liability Company (LLC).

After which you must make an S-corp election by filing form 2553 with the IRS within 75 days of your company's formation. You may also need to file a separate S-Corp election with your state. Most states do not require a separate election.

### Important

If you file for an S-Corp election after 75 days after your company's formation, the IRS will still grant you a late election.

# Basics of S-Corp

## Why S-Corp?

Let's take a step back and talk about why most business owners choose an S corp tax status?

When a business files taxes as a sole proprietor or as a partnership, it pays self-employment tax of 15.3% (Social Security & Medicare) on all of its net profit.

**For example:** Your net profit from your business is \$130K. Your self employment tax on 130k net profit is \$19,890.

By electing to be taxed as an S-Corp, a business does not pay 15.3% self-employment tax on the net profit. Instead, the net profit from an S corp is passed-through to its shareholders. But each shareholder is required to pay him/her a salary. Only the salary of the shareholder is subject to self-employed taxes.

**For example:** Your net profit from your business is \$130K. You elect to be taxed as an S-Corp and your salary is \$70,000. Your self employment tax is now 10,710 saving you an estimate of \$9,180 (\$19,890 - \$10,710).

### Important

A salary for an S-Corp owner must be considered reasonable. See section on "Owner's Salary Strategy".

# Tax Reform & S-Corp Entity

## Section 199A Deduction

Tax Cuts and Jobs Act made significant changes which had a huge impact on business and personal income taxes. As you are probably aware, there is a new flat corporate tax rate of 21% for all corporations, but this applies to C-corporations ONLY.

S-Corp is considered a pass-through entity. As mentioned earlier, all net profit from an S-Corp is passed-through to its owner. With the passing of the new tax law, an owner of a pass-through entity gets a 20% deduction on his/her personal income tax return. This deduction is referred to as a Qualified Business Income Deduction (QBI) or a Section 199a Deduction.

20% deduction is a lesser of

- Your taxable income
- Your Qualified Business Income

# Tax Reform & S-Corp Entity

## Section 199A Deduction (*continued...*)

**Example:** Your qualified business income from your S-corp is 100k and your taxable income is 80k. Your 20% QBI deduction is 16k (80k x 20%).

In general, if your taxable income for 2023 is

- \$232,100 (single filer), including phaseouts
- \$464,200 (joint filers) including phaseouts

**Then you may NOT take this deduction!**

But, if you pay wages from your business to either employees or yourself, then you can take the deduction even if your income is above these thresholds.

# Tax Reform & S-Corp Entity

## Section 199A Deduction (*continued...*)

### Plan Ahead

Therefore, if you know in advance that your taxable income will be over the above thresholds, then it is super important for you to plan ahead when considering the QBI deduction.

Things to consider:

- Your qualified business income
- Your taxable income
- How much wages are you paying to your employees, if any
- How much will your reasonable compensation be

### Important

This is a FREE deduction given to you by the IRS and if you don't plan accordingly, if you don't speak to your accountant about this or if you don't ask your accountant questions about this, you will lose big time.

# Tax Reform & S-Corp Entity

## Doctors, Lawyers, Athletes, Traders & Others

If you are an owner of what the law calls a **“specified service trade or business”** and you make “too much money”, over the threshold amounts

- \$232,100 (single filer), including phaseouts
- \$464,200 (joint filers) including phaseouts

You will not get the 20% QBI tax deduction. OUCH!!!

This group of owners include owners

- in the field of health, law, consulting, athletics, financial services, and brokerage services where the principal asset of such business is the reputation Or skill of one or more of its employees or owners that involves the performance of services that consist of investing and Investment management trading, dealing in securities, partnership interest, or commodities.
- For this purpose, security and commodity have the meanings provided in the rules for the mark-to-market accounting method for dealers in securities ( Sections 475(c)(2) and 475(e)(2), respectively.

# Tax Reform & S-Corp Entity

**Doctors, Lawyers, Athletes, Traders & Others**

***(continued...)***

**Engineers and Architects** - are not considered specified trade of business for the purposes of section 199A deduction.

## **Tax Strategy**

If your taxable income is above the threshold amounts, then consider planning ahead and reducing your taxable income below the threshold amounts. This would include maximizing your retirement account, prepaying certain expenses (see section on prepaid expenses) and etc...

# S-Corp Tax Strategies

## Owner's Salary Strategy

As an owner of an S Corp and also its officer you are required by IRS law to pay yourself a reasonable compensation. All net profit from an S Corp flows through to its shareholders, which means all of that profit is not subject to self-employment tax (Social Security & Medicare).

What does “reasonable compensation” mean? Ironically, the IRS doesn't get into details of what reasonable compensation means but it does say that a reasonable compensation is any salary that you would pay to a person doing your job in your position or in some cases not even. In many instances I have seen that owners

of

an S Corp overpay themselves a salary which results in overpayment of self-employment taxes. By establishing a

reasonable salary for yourself as an owner of your

S-Corp you will significantly save money on self employment taxes

which could mean thousands of dollars on taxes. Most business

owners are “wearing many hats” in the business: sales, admin,

bookkeeping, invoicing and then being an owner. All of these

categories, combined together, will reduce your taxes significantly.

# S-Corp Tax Strategies

## Owner's Salary Strategy (*continued...*)

### Tax Strategy

At my firm we use a third party company that specializes in assessing reasonable compensation for S-Corp owners depending on task categories, demographics and georgary. Think of it this way, the salary of a New York S-Corp owner will be much higher than Alabama S-Corp Owner.

If you'd like an analysis done on your salary, please schedule an intro meeting with one of our Tax Advisors at <https://go.bennettfinancials.com/cfo>

# S-Corp Tax Strategies

## Health Care Strategies - Solo Owner

### Warning

If you are more than 2% shareholder of your S-Corp then **you are not allowed to receive fringe benefits from your S Corp**. Health insurance paid by your S-Corp for you would be considered a fringe benefit therefore it may not be deducted from your taxes. **Whether you pay for it individually or through a group plan.**

However, IRS still allows more than 2% shareholders of an S-corp to deduct health insurance from **by following certain rules and criteria:**

1. Make the S-Corp pay for your health insurance either directly to your insurance company or through reimbursement to you
2. Have the S-Corp include your health insurance reimbursements or payments as part of your wages on your W-2
3. Now you can deduct the cost of health insurance premiums as a self-employed health insurance deduction on your personal income tax return.

# S-Corp Tax Strategies

## Health Care Strategies - Solo Owner

***(continued...)***

I am warning you If you are deducting health insurance premiums for yourself as some more than 2% shareholder of your S-Corp **and you're not doing it through your W-2 then you may not take this deduction.** It will raise a red flag and it will be added back to your income because it **was never properly added to your wages.**

# S-Corp Tax Strategies

## Health Care Strategies

### - Solo Owner (continued...)

#### Tax Strategy

Now that we spoke about how to properly deduct your health insurance premiums, **let's talk about how you can further save money on taxes using this strategy.** Let's incorporate your health insurance premiums into your reasonable compensation.

Let's say for argument's sake your reasonable compensation should be \$100,000 and your family health insurance premiums are \$20,000 per year. **The IRS allows you to include \$20,000 premiums as part of your \$100,000 salary.**

Nope, not an addition to the salary **but as part of the salary!** The reason you would want to include your 20k premium as part of your compensation is because \$20,000 of your premiums **will not be subject to self-employment tax.**

#### Important

- Make sure that the health insurance premiums for you as an owner of an S-Corp are included **as part of your wages on your W-2.**
- Do not increase your reasonable salary by insurance premiums but instead include it as part of your wages **to further save money on self employment taxes.**

# S-Corp Tax Strategies

## Health Care Strategies

### - Owner & Employees

As a small employer **you do not have to provide any health insurance benefits to your employees.** You don't have such a requirement. **Small employer is considered someone with less than 50 full-time employees.** One of the biggest mistakes that I've seen an S-Corp owners do is reimburse their employees for individually purchased health insurance, **without following the rules.**

If you want to provide health insurance benefits to your employees and reimburse them for their cost **you may still do so but you first must establish what's called Qualified Small Employer Health Reimbursement Arrangement (QSEHRA).** Using QSEHRA, you may reimburse your employees for their health insurance premiums up to a certain amount. **For 2023, for single individuals you may reimburse up to \$5,850 and for married individuals you may reimburse up to \$11,800.**

### Solution

If you want to implement QSEHRA you must give a notice to your employees before you can actually implement it and take it as a tax deduction. To request a sample of QSEHRA notice please schedule an intro meeting with one of our Tax Advisors at <https://go.bennettfinancials.com/cfo>

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# S-Corp Tax Strategies

## Health Care Strategies

### - Health Insurance Tax Credit

As an employer you may qualify to actually receive a tax credit for paying for your employees health insurance premiums. **Tax credit means dollar-for-dollar deduction from your tax liability.** It's a great strategy, but you must be eligible:

1. You employed less than 25 full-time employees during the year
2. Paid annual wages less than \$61,400 or less per employee (2023)
3. You paid for health insurance premiums purchased through small business health options program (SHOP) Marketplace.

### Important

If you qualify for this credit, make sure that your accountant knows about this credit **and properly captures this tax credit** on your personal income tax return since S Corp is a flow through entity.

# S-Corp Tax Strategies

## Retirement Strategies - SEP IRA **Owner ONLY**

The most attractive retirement account for a small business owner including an S-Corp with no employees is SEP IRA. **SEP IRA is relatively easy to set up** and administer and it's very cheap. **Contributions to SEP IRA are limited to 25% of your W-2 wages.** For instance if your reasonable compensation that is paid to you as an S-Corp shareholder on your W-2 is \$100,000 then your **S-Corp may contribute \$25,000 into your SEP IRA account.**

The drawback of using the SEP IRA is the limitation on deduction.

If you want to put away more money into your SEP and write it off your taxes than **you would have to increase your W-2 wages.** By increasing your W-2 wages you will also end up overpaying in self-employment taxes. **This will defeat the purpose** **Important**

Please note that the overall contribution to a SEP IRA may not exceed \$66,000 (2023). This could still be a good retirement account for you but only if you're not planning to put away as much. **As in our previous example of a reasonable compensation \$100,000 your contribution limitation is \$25,000.**

# S-Corp Tax Strategies

## Retirement Strategies - Solo 401(k) Owner ONLY

A better alternative to the SEP IRA for a solo owner of an S corp is a Solo 401k. Solo 401K is too, relatively easy to set up, manage and it's cheap to administer. **Actually in many cases it is free.**

Contributions to solo 401K are far greater than of a SEP IRA by having the same salary. **With a Solo 401(k), you can defer up to \$22,500 (2023) of your own salary.** After which, your Scorp can contribute 25% more into your plan and take it as a deduction. If you are over the age of 50, you can contribute **\$7,500 more (2023)**

**which is also referred to catch up contributions.**

All in all, total contributions may **not exceed \$66,000 for 2023**

**and**

**and \$73,500 if you are age 50 and older.**

Using the same example as above (from SEP IRA) if your reasonable compensation is \$100,000, **you may contribute \$47,500 and additional \$7,500 if you are age 50 and older.**

# S-Corp Tax Strategies

## Retirement Strategies

### - SIMPLE IRA Owner & Employees

If you are not a big fan of retirement and not really looking to contribute to your own retirement as much as you want **to offer this benefit to your employees, then consider a Simple IRA.**

A Simple qualified retirement plan allows eligible employees of a company to save and invest for their own retirement on a tax deferred basis. As an owner of your S-Corp you are also considered an employee of your own business. **Therefore, you are eligible to contribute to Simple IRA, and max out on it if you choose to do so.**

The contribution limits **for 2023 is \$15,500 plus additional \$3,500 if you are over the age of 50.** By establishing a SIMPLE IRA, you are also required to make one of the two contributions:

1. A matching contribution of 3% or
2. A non elective contribution of 2% to all eligible employees

Like I said if you are not a big fan of retirement contributions for yourself, then having this type of retirement account **is cost effective and yet keep employees happy.**

# S-Corp Tax Strategies

## Retirement Strategies

### - 401(k) & Profit Sharing

## Owner & Employees

Ah, this is where it gets juicy **if you really want to maximize retirement contributions** even keeping the costs down by having employees.

Let's start with basics:

When you have employees you should set up a 401k plan with a **safe harbor provision**. Safe harbor means that you can match your employee no more than a certain amount based on their contributions. For example, you can choose to match your employee's contributions up to 3% of his/her salary every year. This can be either **elective or non elective**. Remember, You and your employees **have an option to defer up to 22,500 (2023) dollars of your own salary into a 401K plan**.

**Elective** - you will only match your employee if employee chooses to contribute

**Non Elective** - you will contribute to your employees regardless if employee contributes

# S-Corp Tax Strategies

## Retirement Strategies

### - 401(k) & Profit Sharing (*continued...*)

#### **Example:**

You offer an elective 401(k) plan, 3% match to your employees with safe harbor provisions.

Employee, Bob, gets paid \$80,000 a year from your S-Corp. Bob defers \$6,000 of his salary into his 401K plan. You as an employer must match up to 3% of his 80k salary (80,000 x 3% match).

Your contributions into his plan will be 2,400 (80,000 x 3%)

# S-Corp Tax Strategies

## Retirement Strategies - 401(k) & Profit Sharing

*(continued...)*

**Tax Strategy** Let's say your reasonable compensation as an S corp owner is

\$90,000. You made the first \$19,500 of your own salary into a 401k

Plus at 3% which is \$2,700. **Your** total contribution and an adduction for yourself is \$22,200 .

If you want to maximize your contributions and write off \$56,000 then you can do **what it's called a profit sharing plan**. The key here is, **PROFIT SHARING**. Your 401k should be set up in a way

to

allow safe harbor provision with a certain match **PLUS the profit sharing component to it**. Profit sharing won't always work in

your benefit if you have

employees **who are either the same age as you, older than you,**

**worked for you for a long time, full time or a highly compensated.**

It really depends.

# S-Corp Tax Strategies

## Retirement Strategies - 401(k) & Profit Sharing

*(continued...)*

But a profit sharing option could be a great way to be able to contribute a lot more to yourself while taking a big tax deduction. **This may also allow lower contribution limits to your employees.** I emphasize it all depends. What you need to do at this point is contact your financial advisor and ask him or her to run calculations for you. **Usually these calculations are done with the help of a third-party administrator.** Your financial advisor should know this.

# S-Corp Tax Strategies

## Retirement Strategies

### - 401(k) & Profit Sharing (*continued...*)

You are going to need to provide a payroll census to your financial advisor and they will be able to run calculations and let you know **if profit sharing makes sense for you and what it is going to cost you** to contribute to your employees or not. **They should also be able to tell you whether you need to contribute more to your employees or not.**

In my practice doing tax planning for my clients I have utilized this strategy numerous times. And it worked! Simply because my clients didn't have employees who are either highly compensated or are older than him or her!

#### **Impor tant**

Contact your financial advisor and speak to him/her about these options if you have employees and you have a 401K plan.

# Hiring Family Members

## Hiring Spouse

If you are hiring your spouse in your S-Corp, you should consider a few things first and foremost: what are you paying your spouse? **In many cases owners extremely over pay their spouse for the work that they're performing.** Now you might argue that you want to maximize retirement.

### **Maybe, maybe not.**

You can still maximize your spouse's retirement and get a big tax write-off **even with a lower salary.**

Overpaying your spouse's salary will cost you in over payments of FICA taxes. FICA taxes are your payroll tax which are social security & medicare taxes. **How do you determine your spouse's salary?**

Well think about it, if you are to hire someone else in his/her stead, how much would you pay that person? All you have to do is pay your spouse a reasonable compensation. A compensation you would pay to someone else doing the same job. You don't need to pay your spouse over \$100,000 of salary, especially if your spouse has a day time job.

Besides lowering your spouse's salary to a reasonable amount, **you may also maximize his/her retirement account and get a double write off.** A write off for yourself, and write off for your spouse. Big time!

# Hiring Family Members

## Hiring Children

You can also hire your children to work for you in your S-Corp. Children either under the age of 18 or over the age of 18, it doesn't really matter. **The reason you would want to consider this option is because your children are in the lower bracket than you are.**

Any individual in the United States can **earn up to \$12,000 of income and not pay federal income tax on those earnings.** If you're hiring a child that is under the age of 18 and that child doesn't have any other job and you pay this child up to \$12,000 you can take that as a write off. Your child doesn't have to pay taxes

on

\$12,000 of income earned from your S-Corp.

**Small Drawback:** By paying your child you will incur **payroll taxes**

**of Social Security and Medicare, 15.3%.** Remember, to use this strategy **it has to make sense.** If you are in a 40% tax bracket between federal and state, by hiring your child you will pay 15.3% tax on \$12,000 salary per child but you will still save 25% on taxes (40% - 15%).

# Hiring Family Members

## Hiring Children (*continued...*)

Using our example that's \$3,000 saved on taxes per child or \$6,000 for two children.

If you hire your child that is under the age of 18, most likely this child doesn't have any other job besides the one you hired him for so use this strategy to add an extra 12k in deductions to yourself.

### Important

With an S-Corp, it does not matter if your child is under or over the age of 18. You will pay FICA taxes on your child's payroll, but if you are in a high tax bracket, **then there is still an overall tax benefit.**

# S-Corp Tax Strategies

## Augusta Strategy

The IRS allows a business owner to rent their primary residence or a vacation home to their business for up to 14 non-consecutive days each year. The residence can be located anywhere in the United States and the income is excluded from taxable income for the residence owner / business owner.

As an S-Corp owner you can rent your home to your business for board meetings are the strategy meetings Employees. You can basically pay rent to yourself for renting your own home from the business. This will be a tax deduction to your business and you will not have taxes on this “rental” income.

The rental is established with a lease agreement between the business and residence owner, with pricing supported by researching and documenting comparable space for a similar event.

# S-Corp Tax Strategies

## Meal Categories

### 50% Deductions:

- Lunch with customer, client or employee associated with a business discussion
- Taxes and tips relating to a meal or entertainment activity
- Room rental for a dinner or cocktail party (assuming the event met the business relation test)

### 100% Deductions:

- Transportation costs to and from a business meal or entertainment activity, may be 100 percent deductible or 50 percent depending on the facts.
- Meals provided on the employer's premises for the employer's convenience, if more than 50 percent of the employees are furnished meals for the employer's convenience
- Promotional activities that are made available to the general public
- Employer-provided social/recreational expenses primarily for the benefit of employees who are not highly compensated, such as a summer picnic or holiday party
- Business gifts up to \$25 to anyone individual per tax year

# S-Corp Tax Strategies

## Meal Categories (*continued...*)

### **Nondeductible Items:**

- Lunch with customer, client or employee without a business purpose/discussion
- Ticket price for sporting event that you do not attend
- Club dues; for example, country clubs, golf and athletic clubs
- Lavish or extravagant entertainment expenses (basically unreasonable expenses)
- Under TCJA, entertainment deductions are eliminated. Based on IRS guidance issued Oct 3, 2018, meals will continue to be deductible.

# S-Corp Tax Strategies

## Prepaid Expenses

You may prepay certain expenses such as rent, insurance or even a car lease up to 12 months and get a tax deduction in the year paid.

**For example, on December 25 you can write a check for up to 12 months of your rent to your landlord and send it to him.** Your landlord will most likely receive this check after January 1st of next year. Your landlord will report this income in the next year.

You get a deduction this year and your landlord gets to report as income next year as he/she normally would.

**The 12-month safe-harbor rule states that you may expense**

(other than where directly prohibited, as explained below) amounts paid to create a right or benefit that:

- Does not extend more than 12 months, or
- Does not extend beyond the end of the taxable year following the taxable year in which you made the payment.

# S-Corp Tax Strategies

## Prepaid Expenses (*continued...*)

When another section of the tax law says that you must give an expenditure a required treatment, that required treatment prevails. In these cases, you may not use the prepayment strategy. For example, **you may not use the prepayment strategy to deduct:**

- Interest, loans, and other financial interests
- The costs of self-created intangibles
- Furniture, equipment, and other capital assets

**Basically, as mentioned above, you may use the prepayment strategy for insurance premiums, operating licenses, rents and leases, and contract terminations.**

# S-Corp Tax Strategies

## Prepaid Expenses (*continued...*)

### Tax Strategy

Normally I recommend pre paying your expenses in a situation where your **income is above the threshold of a section 199A** Deduction (QBI Deduction), discussed earlier. If you are over that income limit and you need to bring your taxable income down then you need to consider prepaying some of the expenses. **Do whatever you can to bring down your income and get a higher qualified business income tax deduction.**

True, if you prepay certain expenses now, you will not get this same tax deduction next year. **I want you to think outside the box.** Prepaying this expense now will give you a possibility of increasing your QBI Deduction giving **you a higher tax break which might not be available to you next year.**

# Accountable Plan Reimb.

## Accountable Plan Explained

An accountable plan allows employees, **and in this case owner employees**, to be reimbursed for expenses paid out of pocket. **The expenses become deductions to the business** and the employee or employee-owner can be reimbursed, creating non-taxable cash flow to them. In order for this plan to be a "Qualified Accountable Plan" it must have the following connection points:

- Business Connection
- Substantiation (Expense Reports - with receipts)
- No Excess Payments
- Timeliness (30 - Day Rule)

If not disbursed under an accountable plan, **the payments to the employees could be considered additional wages by the IRS.**

If you need an accountable plan in your business, please schedule a meeting with our tax advisors at <https://go.bennettfinancials.com/cfo>

Having an accountable plan in place, **you can deduct**

- **AdminHomeOffice**(yes,evenifyouhaveanactualwork location: office, store front and etc... See next section)
- **Travelfromhometoyourwork**(yes,itisnowdeductible,see next section)

# Accountable Plan Reimb.

## Admin Office

Yes, you can **still qualify for a home office deduction even if you have an office outside of your home**, such as your actual business location. The IRS says that the home office is going to qualify for deduction **when you make it an ADMINISTRATIVE office for your business and conduct the majority of your admin work from home**. Admin work includes but not limited to: bookkeeping, billing, paperwork, invoicing, etc....

To be able to deduct, admin home office

- Have a separate space **in your home for a home office**
- If you have another office, **make sure to perform** majority of your admin work from home
- Figure out the % of the home used for business. For example, if your home is 1,000 sqf. and your home office is 150 sq ft., then you are using 15% of **your home for the business**
- Make sure to get a letter from your S-Corp, **requiring you as an employee to work from home** and state your duties to be performed from home
- Submit an Expense Reimbursement Report or Form 8829 to the Corporation every month, **so that your S-Corp can reimburse** you % of the home used for:
  - Monthly Rent
  - Utilities
  - Other Costs Related to your admin home office

# Accountable Plan Reimb.

## Admin Office (*continued...*)

### Tax Strategy

For this strategy to work, **you need to set up an Accountable Plan**. As discussed earlier, an accountable plan basically means that if you incur expenses on the behalf of the business, **your business may reimburse you without any tax consequence for you and your business.**

If you need an accountable plan in your business, please schedule a meeting with our tax advisors at <https://go.bennettfinancials.com/cfo>

# Accountable Plan Reimb.

## Personal Vehicle Tax Deduction

Now that you have an Admin Home Office and an Accountable Plan in place, **you may deduct your travel from your home office to your business location.**

### Tax Strategy

To take advantage of this strategy you must track your business miles. **Based on your business miles you can determine the % of expense** you can deduct as a business expense.

- Get GP Tracking App (we recommend MilesIQ). With this App you can track your personal miles and your business use miles
- Submit Expense Reimbursement report to the Corporation for the following
  - Monthly Lease  $\times$  business use %
  - Gas and Maintenance Cost  $\times$  business use %
  - Auto Insurance  $\times$  business use %

**For this strategy to work, you need to set up an Accountable Plan.** As discussed earlier, an accountable plan basically means that if you incur expenses on the behalf of the business, **your business may reimburse you without any tax consequence for you and your business.**

If you need an accountable plan in your business, please schedule a meeting with our tax advisors at <https://go.bennettfinancials.com/cfo>

# Bonus Material

## 100% Write Off Your Beach Home

You may purchase a home at the beach, use it solely as an entertainment facility for business, **pay off the mortgage and deduct all the expenses.** If, let's say after 10 years, you decide to use the beach house personally 100%, **there are no tax consequences for doing so.**

The beach home, ski cabin or other entertainment facility **must be primarily for the benefit of the employees** other than those who are officers, shareholders, or other owners who own a 10% or greater interest in the business, or other highly compensated employees.

Basically, buy a beautiful condo overlooking the beach in Florida. Let your employees use this condo as well and make sure that their use days are more than yours (owners) then the entire cost of maintaining this condo becomes tax deductible. **There are of course few rules to follow over here but that's basically the gist of it.**

### Important

I strongly recommend **consulting your tax adviser** and it is definitely possible and there are no hurdles to using this tax strategy, just a few basic rules.

# Bonus Material

## Self Rental Strategy

If you own a building or an office space **and you rent it to your business** then you might want to consider this tax strategy in order to maximize your tax deductions.

There are **two disadvantages** on renting to yourself:

- If the self-rental produces a net income then this income is **considered non passive income**. This means that if you have passive losses from other rental activities or other passive businesses **then these passive losses may not be offset** against this self-rental income. OUR
- If the self-rental produces a loss, then this loss is considered **PASSIVE!** And if you modified adjusted gross income is over \$150,000 then this loss is non-deductible (unless you are a Real Estate Professional).

# Bonus Material

## Self Rental Strategy (*continued...*)

**Does your self-rental produce a loss? If so, can you make it tax deductible? The answer is YES!**

The tax code says that you can combine your rental activity and the business activity as one for passive loss rules. **This rule is called grouping!** By grouping your self-rental activity and business activity you can now deduct self-rental loss.

How? When a self-rental produces a loss you **can deduct that loss against your business income because you grouped both activities together.**

# Bonus Material

## Self Rental Strategy (*continued...*)

**Must follow these rules:**

- Therentalactivityisinsubstantialinrelationtothebusiness activity
- Thebusinessactivityisinsubstantialtotherentalactivity
- Under the tax rules, the ownership of the business activity is deemed the same as the ownership of the rental activity

**\*\*\*When you file a joint return, the IRS treats you and your spouse as one taxpayer for purposes of this rule.**

### Important

You must make an election on your tax return to group these activities pursuant to the rules set out in Rev. Proc 2010-13

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If you would like to discuss any of these strategies further and how you can incorporate them into your business you can schedule with one of our tax advisors at <https://go.bennettfinancials.com/cfo>

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