

The
Tremendous
Tax Savings Of
Business
Owners/Self-
Employed

Thanks to Congress and your business, you can deduct many
of your expenses!

This information is **not tax advice** and is not meant to be the definitive answer to your tax questions. (Consult your tax professional for more detailed information.) It is to help you understand the incredible tax benefits that are available to you because you have chosen to be your own boss and be self-employed. This information will be valuable to you in your business and it will help you in recruiting and showing people another reason why they need to be a business owner, self-employed, home based business owner. Besides the great earning potential, the education and the experience they will obtain from becoming self-employed.

Attached documents were made to specifically help you grow your business. They address the 3 R's, **Recruiting**, **Retention** and **Revenue**. They show people who are not their own boss another reason why they need to be. Those who are currently self-employed will see the incredible revenue creating tax benefits given to them. The less active people will see that they need to become active again and continue with their business.

Congress has passed a lot of good tax laws for business owners/self-employed people. However their job is not to educate us on the use of these good tax laws.

The IRS enforces the tax laws; however their job is not to educate us about the tax laws. Nor is their job to tell us when we have over paid our taxes.

According to The Tax Foundation Americans **over pay** their taxes by more than **\$180 BILLION** a year because of this lack of education about taxes.

Do you know what tax payer freedom day is? It is a designated day during the year that we finally have paid our taxes and get to keep our own money.

Do you know what day that is? It is in the newspapers each year. Tax Payer Freedom Day is April 19 of each year! That means that every penny that you make during, January, February, March and part of April, goes to the government. People realize that they pay a lot of taxes, but having it spread out over the year makes it a little less obvious. Can you imagine what kind of problems there would be if American's had to go without income from January 1st to April 19th?

What will be the largest expense in your lifetime? A mortgage, car payments, medical bills, children? You're not even close. The Taxes you will pay over the duration of your life will be MORE than your mortgages, car loans, medical bills, food, clothing, children's expenses, etc. combined!

Now for the good news, as a Business Owner you are not part of the above tax scenario.

There are 2 tax systems in the United States. No it is not the rich and the poor. There is one for BUSINESS OWNERS/SELF-EMPLOYED PEOPLE designed to create wealth, and one for W2 EMPLOYEES.

You need to stop thinking like a
W2 employee:
Everything is taxable.

and start thinking like a
BUSINESS OWNER:
Many things are deductible and,
how can this further my business?

The best selling book The Millionaire Next Door is a study of self made millionaires in the United States. Surprisingly the common thread is that they are their own bosses and that they are able to get their taxes down to the LEGAL limit.

Business Owners Tax Strategies

Hiring your family to maximize your deductions.

Hiring Your Spouse;

This strategy makes it possible to deduct 100% of ALL medical expenses and your business travel expenses.

Pay your spouse a “**reasonable wage**” for the work performed.

EXAMPLE: Reasonable wage will also include any expenses reimbursed under the medical reimbursement plan. the IRS will disallow excessive wages paid to your spouse.

What work can my spouse do for me?

EXAMPLE: Answer the company phone and take messages,
Enter company data
Run company errands,
Hand out advertising,
Clean the company office,
Do the company finances, etc.

THE WORK MUST BE NECESSARY AND NEEDED FOR YOUR BUSINESS. Medical reimbursement plan payments will go into the calculation of reasonable compensation. The IRS can disallow tax deductions for unreasonable compensation.)

Hire Your Spouse And Deduct 100% of ALL Medical Expenses.

When you hire your spouse you are his/her “employer.” Thanks to IRS tax code section 105, you can cover ALL your employee’s out of pocket medical expenses under the, “Self Insured Medical Reimbursement Plan.” REG 1.105-11(b)(1)(i) defines a **Self Insured Medical Reimbursement Plan** as follows; “A self insured medical reimbursement plan is a separate written plan for the benefit of employees which provides for reimbursement of employee medical expenses referred to in section 105 (b), (above). A plan or arrangement is self insured unless reimbursement is provided under an individual or group policy of accident or health insurance issued by a licensed insurance company or under federal or state law in a manner similar to the regulation of insurance companies.”

In plain English this means, you can reimburse your employee/spouse for his or her medical expenses, the medical expenses of his or her spouse (you), and the medical expenses of his or her dependents (also your dependents). Result: **100% of your medical expenses are deductible** as business expenses **and NOT included as income to your employee/spouse.** You no longer have to be subject to the 7.5% medical expense rule that W2 employees have to endure. W2 people have to have medical expenses that exceed 7.5% of their gross income before any expenses can be deducted.

EXAMPLE: My husband has medical insurance; through his W2 job however it doesn’t cover co-payments, chiropractors, naturopathic medicine, acupuncture, etc. My husband has a second job and his boss who is a great person, told him that he would cover ALL of his out of pocket medical expenses. Each month my husband gives

his boss a form that tells him how much his medical expense was and who they were from. The boss then writes a company check to my husband to reimburse him for the medical expenses listed. The boss also reimburses my husband for medical expenses for the entire family. The medical bills that his boss reimburses him for are deductible for him as a business expense and not taxable income to us. GUESS WHAT? My husband's second boss is ME! So this employee deduction benefits both of us because we file jointly. Medical reimbursement plan payments will go into the calculation of reasonable compensation. The IRS can disallow tax deductions for unreasonable compensation.

Hiring Your Children.

*This strategy allows you to hire your children and they can use their **wages**, which are a business expense to purchase the things that they need.*

Congress allows a parent to hire their children to work in their business/home-based business.

Children who are 7 years old and have not reached their 18th birthday are not subject to deductions being taken from their paycheck.

You may pay your children up to \$ 5,450 a year per child, as wages for work they do for your business. And they pay NO taxes on that amount!

You may set up a Roth IRA for your children with up to \$ 5,000 a year per child. (For the year 2008, and you still take the child as a deduction!)

This is not to say that you are spending more on your children than you normally would. You just use the tax laws to categorize the money you would normally spend, into business expenses thanks to Congress, for work that your children do for you that is **“appropriate for their age, necessary and needed for your business”**. You do need to have them keep an accurate weekly time sheet or time card. You have to pay them by check, from a bank account other than your personal account so that you have proper documentation.

If you do not want the headache of taking care of the payroll yourself, contact Tax Sentinel 1 about our payroll service that is free to customers.

What kind of work can my children do for me?

EXAMPLE: My daughter, Cheri, is 16 years old. She answers the company phone and takes messages daily from 3:30 pm until 5:00 pm. She also cleans the company office, enters customer data into the computer, writes and addresses the company Christmas cards, etc.

Contacting a Temp-services business I found that to replace her I would need an Administrative Asst. at an incredibly high cost of \$25 an hour. So I pay my daughter \$12.50 an hour and she works 30 hour a month, or 7.5 hours a week, which equals \$375 a month. My payroll service sends Cheri a paycheck once a month, which is deposited into a bank account that has her name and my name on it due to her being a minor. (This way I can help her decide what the funds will be used for.) Then when I need to purchase her clothes, shoes, Christmas or birthday presents, makeup, piano lessons, voice lessons, karate lessons, room and board, money put away for college or weddings etc. we can use the money from her account. With this strategy the child's **wages**, which are deductible, pay for the child's expenses. The Roth IRA can be used for the child's retirement, education, first time homebuyer without paying taxes on it.

You can hire your children who are 18 and older. You then have to have deductions taken out of their wages and they have to file their taxes each year. The strategies still work because the child pays taxes at their tax rate, which will be significantly lower than yours.

EXAMPLE: Your son is in college in another state and once a month you send him a check for his expenses. This is not deductible, so thanks to Congress and the tax laws, you hire your son to do **necessary and needed work for your business**, and then pay him wages, which are deductible. Your son can distribute flyers for you to and from class, place your advertising information on campus bulletin boards, be a referral source, hand out

samples, etc. and keep his own time card. Then you will pay him **wages**, which are a business deduction.

Hiring children less than 7 years of age.

Children under 7 can not work routinely, however they can work.

EXAMPLE: You have seen the flyers, web sites, business cards, yellow page ads, and TV commercials etc. that have a cute child on it? This child is most likely a well-paid child model that a business owner hired. Well guess what? You are a business owner, so hire your own child and pay them what you would pay a child model to do the same thing. **The children must actually do the work.** The child's **wages**, are a business expense, can be used for diapers, formula, clothes etc.

Deducting Business Trips

Combine Personal Pleasure with Business Travel

The IRS states that you are "traveling" when you are away from home overnight or for a period of time sufficient to require sleep. While you are on your "business trip" you are allowed to deduct all expenses necessary to sustain life while on your trip. You can deduct 100% of your dry cleaning costs while you are gone and after you return. Transportation and lodging are deductible; food is deductible at 50%. You can also deduct haircuts, shoeshine, etc. (Items necessary for business survival) No receipts are required for travel expenses under \$75 per expense with the exception of lodging and transportation. However, you **must** document the expense the same day it incurred. You must document where you were, what the expense was for and how much it was. Otherwise you lose the expense as a deduction. The chart below will help you in planning your business trip/vacation inside the United States.

START:

Business	YES	Trip to	NO	Outside of the	NO
Trip?	----->	convention	----->	United States?	----->
		or seminar			
Were more than 50%		YES		Deduct 100% of your transportation	
-----> of days including travel	----->			expenses, to and from your business destination.	
Days, spent on business?					

EXAMPLE: A financial planner named John was planning a business trip to Hawaii to a financial planning company. To confirm his meeting with this company he wrote and mailed a letter to the company that he planned to visit while he was in Hawaii to confirm their appointments. He told them that he would like to discuss their style of business, do some networking, and find out how their business differs from his on the mainland. He mailed the letter and kept a copy of it for his records. This way John established a business purpose for the trip before he left. John and his wife flew to Hawaii on Wednesday and returned the next Wednesday. Thanks to Congress, they were able to deduct their entire trip as a business trip. They were gone a total of 8 days. They were required to have more than 50% of the **days** listed as business days, which included travel days. (Not 50% of the hours of the days.)

John and his wife left very early for Hawaii on Wednesday. Wednesday was classified as business day even though they did not conduct any business. Because travel days are listed the same as business days. When they arrived in Hawaii they were able to play the rest of the day.

It doesn't matter if it took them 1 hour or 20 hours to travel to or from their destination, the day they travel is listed as a business day.

Because they were gone over the weekend they were able to have the weekend designated as *Business Days*, thanks to Congress. "If Saturday and Sunday happen to fall between Friday and Monday, then Saturday and

Sunday are business days without conducting business either day....” (*Really!*) If your weekend happens to fall this way, (*and every weekend that I have ever seen does*) then you need to conduct business on Friday and Monday which makes Saturday and Sunday business days also.

On Friday John and his wife spent several hours at their business appointment, meeting people, networking, touring the building, learning about the cultural differences and how it affects business etc., then they spent the rest of the day sightseeing. Saturday and Sunday were counted as “business days” even though they did not conduct any business. Monday John and his wife attended their other business meeting for several hours. They did more networking, comparing business styles, etc. then they spent the rest of the day having fun.

When they left Wednesday they took the latest flight they could get so they could play all day because Wednesday was a travel day, which means it was also a business day. John and his wife needed to have at least 5 days listed as business to make this a “business trip.” They ended up with a total of 6 days that were business days so their trip was a business expense. John was able to deduct his wife’s expenses at the same rate as his because she was a “bona fide employee of his business, traveling for a bona fide business purpose and he could reasonable expect that she could help him with business.”

EXAMPLE OF THEIR SCHEDULE:

Wed.	Thus.	Fri.	Sat./Sun.	Mon.	Tues.	Wed.
<i>Travel Day</i>		<i>Business Mtg.</i>	<i>(Business</i>	<i>Business Mtg.</i>		<i>Travel Day</i>
<i>Business Day</i>		<i>Business Day</i>	<i>Days)</i>	<i>Business Day</i>		<i>Business Day</i>
1		2	3-4	5		6

The wife’s travel expenses will not be deductible unless she is an employee of her spouse and has a bonifide business reason for taking the trip that will justify the expense. However even if not an employee you can deduct her share of entertaining clients on the trip.

Deducting The Mileage Of All Of Your Vehicles

As a business owner, you can deduct your business mileage. (Personal and commuting are not deductible) There is more than one method that can be used to deduct expenses for your vehicle. I will not cover them all here, as they are too time consuming. Your tax professional should be able to help you decide which would be best for you.

For the year 2008 mileage is as listed;

- 50.5 cents a mile for business mileage (As of July 1st 2008 mileage is 58.5¢)
- .19 cents a mile for medical mileage
- .14 cents a mile for charitable mileage

If you are not keeping track of your business mileage then you are THROWING MONEY AWAY! An example, imagine that you are getting into your car to take a trip of at least 60 miles each way. Now roll down the window and set your trip meter. Start driving, when the trip meter shows that you have gone 2 miles throw a \$1 bill and some change out the window. The next 2 miles do the same thing and the next 2 miles the same thing until you return to the starting point. You will have thrown out \$60.60! That is how much money you are wasting by not documenting your business mileage. Now do some quick math and think of how many times you are just dropping off a product at a client’s house, delivering a brochure to someone, going to your companies meeting or going to training in one month. Now times that by 12 months and you will begin to see what you are missing. Then add to that the medical and charitable mileage that you probably have not been deducting. You can also deduct things that you use for your company vehicles, like the water hose you use to wash the company vehicles, the vacuum you use to vacuum out the company vehicles, the chemicals you use to wash the company vehicles, the tools you use to fix the company vehicles, etc. If you no longer have a receipt for the item in question, you can take a picture of the item, get the current market value of the item out of the newspaper then

staple the picture and the price together and file it in your tax file.

Surprisingly keeping track of your mileage and expenses is not as difficult as we have been lead to believe and looking at the money that can be saved it is worth the effort. We have an easy Tax Diary for our customers to use, or use a small note book that you always keep in your vehicle so that the mileage and expenses can be tracked. (The way that I finally taught myself and my family to remember to record the mileage and expenses was to put a bright fluorescent post-it- note on the odometer.) Written on the post-it-note in big letters were the words “WRITE DOWN MILEAGE.” When I put the key in the ignition I saw the note and remembered to document the mileage. It took about 3 weeks before we no longer needed the notes in the cars.) Every time you decide to go somewhere ask your self, how can this trip benefit my business? Can it be a deduction?

EXAMPLE: I left my home and drove to the airport, which is about 52 miles one way, with “an honest intent to do business.” My daughter and my cousin and I, put about 200 small, business card sized flyers that had information about our travel business on the vehicles in the parking lot. When we finished my cousin went into the airport and flew home for the summer. After we left the airport we went to a discount store with “an honest intent to do business” and distributed more business card sized flyers on vehicles. Inside the store I posted a flyer on the community bulletin board about my business, and picked up some office supplies. We then drove home and were able to deduct the entire trip at 50.5 cents a mile.

My husband, who is also my employee, will go to the store and pick up envelopes, stamps etc. for my business and his mileage is also written off at 50.5cents a mile.

When my daughter was 16, she was also my employee. When she went to the mall she and her friends would distribute a lot of advertising for me. Her trip to the mall was a business trip and can be deducted at 50.5 cents a mile.

Medical mileage is all deductible once you are self-employed and you use the self-insured medical reimbursement plan. You are no longer subject to the 7.5% rule that the W2 employee is required to go by. Every time you make a trip to the hospital, doctor, dentist, mental health professional, chiropractor, pick up your glasses or contacts etc. it is deductible at 19 cents a mile. Over the course of a year that can really add up.

Charitable mileage is deductible at 14 cents a mile. If you are voluntarily participating in a “charitable organization” your mileage is deductible.

EXAMPLE: If I were to serve a voluntary position in my church, such as an usher or Sunday school teacher, then my mileage to and from the church is deductible on the day that I did the volunteer work. If I transported my children or someone else’s children to and or from a church activity, Boy Scouts, Girl Scouts etc. then the mileage is deductible.

There are just a few of the over 157+ strategies that are yours if you are a business owner. If you would like more information, or help implementing these strategies please call today.

Resources for this document:

The Millionaire Next Door, Dr. Thomas Stanley & William Danko

LOWER YOUR TAXES, BIG TIME Sandy Botkin German Town, MD.

For more information on these and other strategies or to become a customer contact:

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