



# TOP 10

## BUSINESS TAX-SAVING IDEAS





You may have heard Ben Franklin's famous saying, "In this world nothing can be said to be certain, except death and taxes." Business owners may not be able to avoid paying taxes entirely. However, there are ways to reduce your tax liability.

One key to reducing your tax liability is to educate yourself as to what tax savings are available in the form of tax deductions and tax credits. Tax deductions allow you to subtract a certain amount of money from your gross taxable income. Tax credits can help lower your income, thereby reducing your tax liability. Once you learn the basics, you will be prepared to handle any unexpected expenses or changes to the current tax law.

## **HERE ARE TEN TAX-SAVING IDEAS THAT WILL HELP YOU TAKE FULL ADVANTAGE OF TAX DEDUCTIONS AND REDUCE YOUR BUSINESS TAX LIABILITY:**

### **1. FUND YOUR RETIREMENT PLAN**

Contributing to an Individual Retirement Account (IRA) can reduce your taxable income for the year. Your total IRA contributions cannot exceed the total income you earned that year or exceed the annual maximum contribution, whichever amount is less.



### **2. DEDUCT YOUR HOME OFFICE**

A home office is one of the most common tax deductions for small business owners. Under the new simplified IRS guidelines for home office expenses, home-based small businesses and freelancers can deduct five dollars per square foot of the portion of your home used for business purposes up to 300 square feet maximum. To qualify for a home office deduction, your work area must be used exclusively for business.

### 3. DEDUCT BUSINESS EXPENSES

Businesses are allowed to deduct "ordinary and necessary" expenses. An ordinary business expense is a common and expected expense of your trade or business. A necessary expense is one that is helpful and appropriate for your trade or business.

For example, an ordinary business expense for a handyman would be the expense for any tools that he needs to complete his work (a hammer, a saw, drill, etc.). A "necessary" expense would be office supplies or equipment.



### 4. DOCUMENT EVERYTHING

Proper documentation is your number one tool for saving money on your taxes. Throughout the year, you should keep a record of your purchases. Whether you retain your receipts in paper form or electronically, retaining your receipts can act as a safety net against any future tax audit. You may also find it helpful to use one of the many receipt apps to keep you organized and on track.

The following business expenses may be used as tax deductions if they qualify:

- Mileage, or actual fuel, maintenance, repair, and the depreciation of your automobile
- Office expenses, including rent, utilities, phone, etc.
- Office supplies,
- Office Equipment, including furniture, computers, software, etc.
- Insurance for business
- Health insurance premiums
- Continuing education courses
- Professional fees (legal and accounting)
- Interest and fees on loans or banking fees
- Business-related travel expenses, including airfare, rental cars, hotels, parking, etc.
- Postage
- Advertising

### 5. KEEP CURRENT WITH TAX LAWS

The 2017 Tax Cuts and Jobs Act (TCJA) made significant changes to the individual income tax. These changes include a nearly doubled standard deduction, new limitations on itemized deductions, reduced income tax rates, and reforms to several other provisions. This act also created several features that can be used to lower your small business's tax liability. For example, if your business isn't incorporated, you can take advantage of the 20 percent tax deduction on your small business's income.





## 6. GO GREEN

You can claim a 30 percent deduction of the cost of alternative energy equipment for your home, including solar panels, solar water heaters, and wind turbines. For further details on the home energy tax credits visit the Internal Revenue Service.

## 7. CASH ACCOUNTING PROVISIONS

The 2017 Tax Cuts and Jobs Act allows businesses to use new cash accounting methods over accrual methods. In accrual accounting, you must track money once an invoice is sent, whereas when using cash accounting, income and expenses are only counted and tracked when paid or received. If your annual income is under \$25 million, you may use the cash accounting method. This will lower your sales and make tax time easier.



## 8. FAMILY LEAVE TAX CREDIT

As of 2018, businesses can receive credit for providing family leave for their employees. To qualify for the Family Leave Credit, you must offer written family leave paid time off and offer employees at least two weeks of paid time off.



## 9. WRITE OFF BAD DEBTS

Your business is either cash or accrual-based business. If your business functions on the accrual accounting method, you can review your accounts at the end of the year to determine if any of the accounts are bad debts and, therefore, "uncollectable". Uncollectable accounts can be "written off".

However, you must show you tried to collect the debt.



## 10. DEDUCT HALF OF YOUR BUSINESS MEALS

As a small business owner, you can deduct 50 percent of meals that qualify. To qualify as a deduction, the meal needs to be related to your business, and you must include the following documentation:

- Date and location of the meal
- The business relationship of the person or people you dined with
- The total cost of the meal

Note that as of 2017, the IRS doesn't let you deduct entertainment anymore. For example, If you took a client to a sport's event, you would not be reimbursed for the ticket price. However, if you treated him to dinner, you can deduct 50 percent of the bill.



## THE TAX CODE CHANGES REGULARLY

Therefore, hiring a tax professional to assist you is essential to your success. While it may be difficult for you to keep up with shifts in tax brackets, deductions, and credits, professionals in the accounting field stay current with these changes as part of their job description. Hiring a professional accountant will actually save you money in the long run.





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