

## Tax Planning and the Private Business Owner

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One of the largest costs you face as a private business owner is the cost of taxes. You have taxes coming from all directions. Sometimes it even feels that all you do is run your business for the benefit of various taxing authorities.

One of the advantages of running a private business is that you have the opportunity of using legitimate tax deductions that favor you as well as your business.

#### Understand where you are taxed

You need to know where you are paying taxes. For example, you might be organized as an LLC and choose to be taxed as a partnership. In this situation, you will generally pay social security and Medicare taxes on 100% of your share of the LLC income. If instead you choose to be taxed as a Sub Chapter S Corporation you would be subject to self-employment taxes only on the portion of the income you take as W2 income. This can often save you thousands of dollars on an annual basis.

#### Use multiple entities when appropriate

Having your assets owned by appropriate legal entities is not only important for asset protection, but also for tax planning. If you own real estate, you don't want it inside either a Sub Chapter S Corporation or a C Corporation. You will want it inside a partnership or an LLC that is taxed as a partnership. This will allow you maximum flexibility when it comes time to sell or exchange that property in the future.

Often you will want to have a C Corporation and a Sub Chapter S Corporation for providing different services to your Clients. We often see a C Corporation used as a general partner for real estate and the Sub Chapter S Corporation for assets within a corporation. This is an excellent asset protection strategy that doubles as a very good tax planning method.

C Corporations have items that can be deducted as normal business expenses that Sub Chapter S Corporations don't. Working with your tax professionals to understand the difference between the two is important.

#### Take all legal deductions

Every year we get calls in December asking about deductions our Clients can take to help limit their taxes. First, make this call to your advisors in June and you have a chance of making the deductions legal. Second, make sure you ask your tax professionals about anything that might be construed as a deduction.

One of the benefits of owning and operating your own company is that some of your annual expenses can be run as legitimate business expenses, saving you money.

#### Tax planning must make sense

The goal is not just to pay fewer taxes. The goal is to use your money in an appropriate and smart manner. If you need an item for your business, then you should plan how to purchase

that item at the lowest possible tax cost. If the business does not need that item, then just purchasing it to save taxes will cost you money.

Some Owners attempt to save taxes by not reporting all their sales. The IRS is onto this and has been putting people in jail. Tax management is not about cheating on taxes - it's about minimizing your tax bite in all legal and rational ways.

We invite you to have a conversation with your Stage 2 Advisor to see what advantages you might be missing. No tax and legal advice is being given. Clients should consult their tax and legal advisors. With warm regards,

## **Stage 2 Planning Partners**

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