very end of the year to pitch ideas to clients, present them with the following ten strategies at midyear.

Apr. 27, 2014

(This is the second in a two-part series on mid-year tax planning. Read the first.)

Traditionally, tax planning is targeted to individual taxpayers, but small business owners can also benefit from such tax-saving techniques. Instead of waiting until the very end of the year to pitch ideas to clients, present them with the following ten strategies at midyear.

1. Stock up on depreciable equipment. Under current law, the maximum Section 179 deduction for business equipment is limited to only $25,000, while 50% bonus depreciation generally isn't allowed anymore this year. Nevertheless, don't hesitate to buy needed equipment if the price is right. At tax return time, you can maximize deductions, including any retroactive extensions of favorable provisions ultimately approved by Congress.
2. Sweeten your retirement pot. Whether you're an employee or self-employed, you can salt away money within generous limits through a qualified retirement plan. For instance, you may defer up to $17,500 of salary to a 401(k) plan ($23,000 if age 50 or over) or contribute the lesser of 25% of compensation or $52,000 ($57,500 if age 50 or over) to a SEP in 2014. It's easier to increase contributions throughout the year than it is to fork over most or all of a paycheck at year-end.
3. Add vacation time to business trips. Generally speaking, you can deduct travel expenses – including airfare, lodging, ground transportation and 50% of meal costs – if the primary purpose of the trip is business-related. As long as you spend more days on business than pleasure, you should be in the clear. However, note that expenses that are strictly personal, such as a sightseeing jaunt, are nondeductible.

4. Fete your business customers. If a taxpayer entertains a business customer

turns into a bona fide business. However, to deduct a loss, you must show that you're engaging in the activity to generate a profit. Otherwise, the write-off is limited to the amount of income from the activity under the "hobby loss" rules. Be sure that your records can stand up to an IRS challenge.

7. Make minor repairs to the premises. The tax law generally permits you to currently deduct minor repairs (e.g., fixing a broken lock) while the cost of major improvements must be capitalized. Have repairs made throughout the year when they are needed. Conversely, if they are part of a major overhaul, the IRS may treat the entire cost, including the repairs, as a capital improvement.
8. Salvage S corporation losses. An S corporation's losses are deductible by the shareholders up to the amount of their basis in the stock. If your S corp expects to show a loss for the year, ensure that you have sufficient basis in your stock to absorb the loss deduction. If necessary, you might increase your basis by adding capital or lending money to the S corporation.
9. Buy a heavy-duty SUV. Usually, deductions for business vehicles are limited by the "luxury car rules." But there's a special exception for certain vehicles – including many sports utility vehicles (SUVs) – weighing 6,000 pounds or less. In this case, the maximum Section 179 deduction is capped at $25,000, much higher than the luxury car limits. Congress has threatened to repeal this tax break, so act soon.

0. Start up a new business. If you getting a new business venture off the ground, you're permitted to currently deduct up to $5,000 of qualified start-up expenses. Any remainder must be amortized over 180 months. But you must officially be "open for business" to qualify for this tax break. Give yourself plenty of time before year-end to commence operations.

Some or all of these strategies may appeal to your business clients. Schedule a meeting to discuss their particulars.

Benefits • Income Tax • Small Business • Tax Planning • Taxes