

## 12 Tax-Trimming Tips

by William J. Lynott

If you're like many busy contractors, you don't pay much attention to income taxes until the filing deadline looms. "That can be a costly mistake," said Jay Blumenthal, a public accountant in Abington, Pa. "One of the most effective ways to pare your taxes to the legal minimum is to make tax planning a year-long effort." Here are some easy tax-planning tips that will help you to maximize your net income in 2015 and all the years to come.

**1. Organize your records.** "If you scramble at tax time looking for receipts and other records, you're probably missing out on some healthy deductions," said Blumenthal. "By keeping your records up-to-date, you'll make your accountant's job easier next April—and an easier job for your accountant means savings on your tax preparation bill as well as your taxes." Bridget Crawford, professor of law and associate dean at Pace Law School, added, "Keep receipts for everything."

**2. Look for deductions you missed last year.** Many taxpayers miss out on important deductions by waiting until the last minute, say the pros. "I'm willing to bet that every taxpayer misses at least one deduction on their tax return each year," said Roni Deutch, tax attorney and author of *The Tax Lady's Guide to Beating the IRS*.

**3. Use credit for end-of-year purchases.** "Most of the time, financing purchases on your credit card is a bad idea," said Deutch. "However, since the interest paid on business expenses is tax deductible, there are exceptions, especially toward the end of the year when you need to rack up a few more deductions. Simply pay some business expenses or purchase some office supplies on your

business credit card just before December 31, 2015. You get the deduction on your 2015 tax return, but you don't have to pay the bill until next year."

**4. Take advantage of Section 179.** Most new business equipment can be depreciated over its useful life or expensed immediately under Internal Revenue Code Section 179. This provision permits you to deduct the full cost of capital assets in the year of purchase up to a maximum deduction of \$25,000. Taking the 179 deduction is easy: Simply fill out Part one of IRS form 4562 and attach it to your tax return as you would any other additional form, such as a Schedule C. Consider making any planned capital purchases before year-end, to lower this year's tax bill. Purchases made right up to December 31, 2015, are eligible.

**5. Combine pleasure trips with business.** If you're planning any pleasure trips this year, consider adding in a little business. Can you visit a fellow contractor or trade association in your destination city to discuss business techniques?

When you travel away from home, you may deduct fares, meals, lodging, and incidental expenses (as long as they are not extravagant). The definition of "away from home" is a trip that takes enough time that the traveler could reasonably be expected to need sleep or rest. The definition of "home" is your regular place of business. When the primary purpose of a trip is business (more than 50% of your time is devoted to business), you may deduct travel expenses even if you enjoyed some non-business extracurricular activities. If more than 50% of the time you spend away from home is spent on pleasure, however, the cost of transportation will be disallowed.

**6. Maximize your tax-deferred retirement account early.** Make the maximum allowable deposits into your 401(k) or IRA account as early in the year as possible. This is universally regarded by financial experts as one of the most important tax-savings techniques. "When you've got a stack of bills, it's easy to forget the person you should be paying first—yourself," said Crawford. "I don't mean a salary. I mean contributions to your retirement account, even if you can manage only \$50 to \$100 each month. And don't wait until next year, hoping that you'll have extra cash; you want to ride that train of compounding interest as long as possible."

**7. Make charitable contributions.** If you plan to make charitable contributions this year, consider donating long-term appreciated securities instead of cash. You'll receive a full fair-market-value deduction and pay no capital gains tax on the securities. Or sell depreciated securities for the tax-deductible loss and then give the cash from the sale to charity.

**8. Change your business structure.** Are you operating your business as a sole proprietor? "Many small-business owners operate as sole proprietors, unaware that net profit from a sole proprietorship is subject to self-employment tax," said Enrolled Agent Karla Dennis. "Self-employment tax comprises Social Security tax and Medicare tax. The current Social Security tax rate is 12.4% and the Medicare rate is 2.9%. By switching to a corporation or a sub-chapter S corporation, you may be able to eliminate a great chunk of this tax." Dennis pointed out that when switching to a corporation, the taxpayer must take an adequate salary and pay the appropriate employment

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taxes. “But this will cost far less than exposing all net income to Social Security and Medicare taxes,” she said. “Medicare is taxed against all income and never caps out. Social Security tax stops when your net income reaches \$118,500.”

**9. Balance gains and losses.** Keep a close eye on personal investments during the year. By selling appreciated assets and liquidating under-performing investments, you may match gains and losses to minimize your personal income taxes.

If you have sufficient losses to offset your gains, you may deduct the losses on sales completed by December 31. Note, however, that the amount of capital losses that you can use to offset ordinary income is limited to \$3,000. If your net loss totals more than \$3,000, you may carry losses over \$3,000 forward every year until you use them up.

**10. Having a blessed event?** Obtain a Social Security number for babies born during 2015, right up to December 31. Put the newcomer on your personal tax return to receive the benefits of claiming the child as a dependent or of claiming head-of-household status.

**11. Saving for college?** If you’re facing college tuition expenses in the years ahead, a 529 College Savings Plan can help to build your college fund and save on taxes while you’re doing it. Offered by 49 states and the District of Columbia, 529 plans allow a lifetime contribution of as much as \$250,000 to pay for children’s college. Contributions compound tax-free and withdrawals are tax-free as long as they are spent for higher education. There’s no deduction on federal taxes for your contributions, but many states offer a deduction on state income taxes. Check with your tax advisor.

**12. Value yourself.** Many small business owners donate some of their time and expertise to charities. “The cost of your time for those efforts is not deductible,” said Professor Crawford, “but any expenses associated with rendering the services are. So if you do any work for a non-profit, the cost of travel is deductible; so are photocopies, long-distance phone calls, or office supplies directly related to the charitable service you render.”

There are, of course, other ways to minimize your tax obligation. Keep in touch with your accountant to stay up-to-date. ❖

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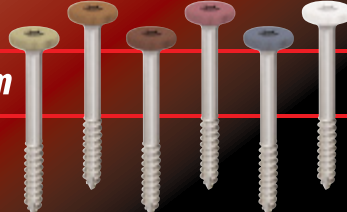


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