

# Tax Strategies for Business Owners

Presented By: Nadia Rodriguez, CPA, CTC



## Nadia Rodriguez

- Staff Tax Analyst  
Intuit, Inc.
- CPA & CTC  
15 years of experience
- Masters in Taxation  
University of North Texas
- Speaker & Educator  
Tax Courses

Passion for  
Teaching  
Sharing Knowledge

# Disclaimer

This session is for educational purposes only and does not constitute legal, tax, or financial advice. While we strive to provide accurate and up-to-date information, tax laws and regulations are subject to change, and individual circumstances vary. We recommend consulting a qualified tax professional or CPA for personalized guidance regarding your specific tax situation. Attending this session does not create a client-professional relationship.

# Roadmap to Tax Strategies for Business Owners



- Business Growth
- Sole Proprietor
- Five Tax Strategies

# Business Growth

430,000

In the United States, an average of **430,000** new business applications are being filed per month in 2024.

*\*U.S. Department of the Treasury*

©Copyrights by **Nadia Rodriguez CPA**. All Rights Reserved.



More than half of **new jobs** created between 2013 and 2023 were thanks to **small businesses**.

55%



# Income Taxes



## Tax Code

A comprehensive and complex document containing all laws related to federal taxes.



## Importance of Tax Strategies

Tax strategies can help business owners reduce their tax burden and maximize their profits

Tax strategies are essential for business owners looking to optimize their operations and improve their long-term profitability.

# Tax Strategies

- **Reduce the Tax Burden**

Implement tax strategies that help lower taxes owed, such as taking advantage of available deductions and tax credits.

- **Increase Operational Efficiency**

Organize business finances in a way that optimizes cash flow and minimizes unnecessary expenses.

- **Generate Long-Term Savings**

Implement retirement plans, investments, and other mechanisms that allow for long-term wealth accumulation.

- **Plan Succession and Ownership Transfer**

Establish strategies for a smooth transition in business ownership and leadership, whether for heirs or for sale.



# Sole Proprietor

(Sole Proprietorship/Disregarded Single Member LLC)

Schedule C

## Pros

- **Low cost:** Easy and inexpensive to set up.
- **Hire minor children:** Ability to employ underage children.
- **HRA** (Health Reimbursement Arrangement): Can provide tax-free medical reimbursements.
- **Flexibility for tax-free contributions/distributions:** The owner has significant control over how the business finances are managed.





# Sole Proprietor

(Sole Proprietorship/Disregarded Single Member LLC)

Schedule C

## Cons

- **No liability protection:** Unless structured as an LLC, the owner is personally responsible for business debts and obligations.
- **Limited ownership flexibility:** Only one owner is allowed (spouses in community property states may be an exception).
- **No business continuity:** The business ceases to exist upon the owner's death.
- **Restricted ownership transferability:** The business can only be sold as a whole.
- **Higher audit risk:** Sole proprietorships have a greater likelihood of being audited by the IRS.
- **Self-employment tax:** 100% of profits are subject to Self-Employment Tax (15.3%).

# Home Office

- **Exclusive Use:** The space must be used exclusively for the business. It cannot be used for personal purposes.
- **Regular Use:** The space must be used regularly for the business. It cannot be for occasional or sporadic use.
  - Exception: Regular use for storing inventory or product samples used in your retail or wholesale business, if your home is the only fixed location for such occupation or business.
- **Principal Place of Business:** The space must be the primary place where the business is conducted. This means it is where most of the work is done or where administrative and management activities of the business take place.



# Two Offices!

IRC Sec. 280A(c)(1)



## Office Outside the Home

Place of business for business activities that are not administrative or management activities.



## Office in Home

Principal Place of Business: A place of business used by you for the **administrative or management** activities of any trade or business you conduct, if there is no other fixed location where you perform substantial administrative or management activities for that trade or business.

# Two Offices: Deductible Expenses

IRC Sec. 280A(c)(1)



## Office Outside the Home

**100% deductible.** This includes rent, utilities, repairs, costs to obtain or terminate a lease, improvements to the space paid by your business, and **miles driven from the office to your home office.**

**Strategy:** Keep administrative activities separate. Conduct these activities in your home office.



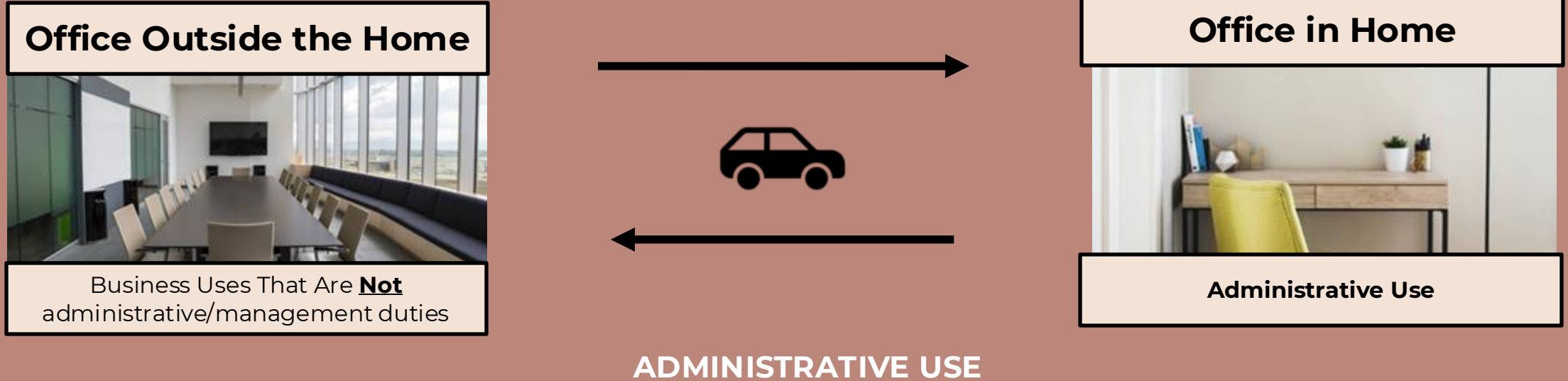
## Office in Home

You can choose between **two methods**: the **simplified** method, which allows you to deduct \$5 per square foot up to a maximum of 300 square feet, or the **regular** method, where you calculate the percentage of space used for the business.



# Two Offices: Deductible Expenses

IRC Sec. 280A(c)(1)



- Keep a record of what you are doing during the time you spend in your home office.
- You need to demonstrate that you do not perform substantial administrative or management activities in any other office. Also, record what you are doing in your office outside the home.
- Activities that the IRS classifies under the administrative or management category:
  - Invoicing clients or patients
  - Keeping books and accounting records
  - Ordering supplies
  - Forwarding orders
  - Writing reports
  - Scheduling appointments



# Vehicle Use for Business Purposes



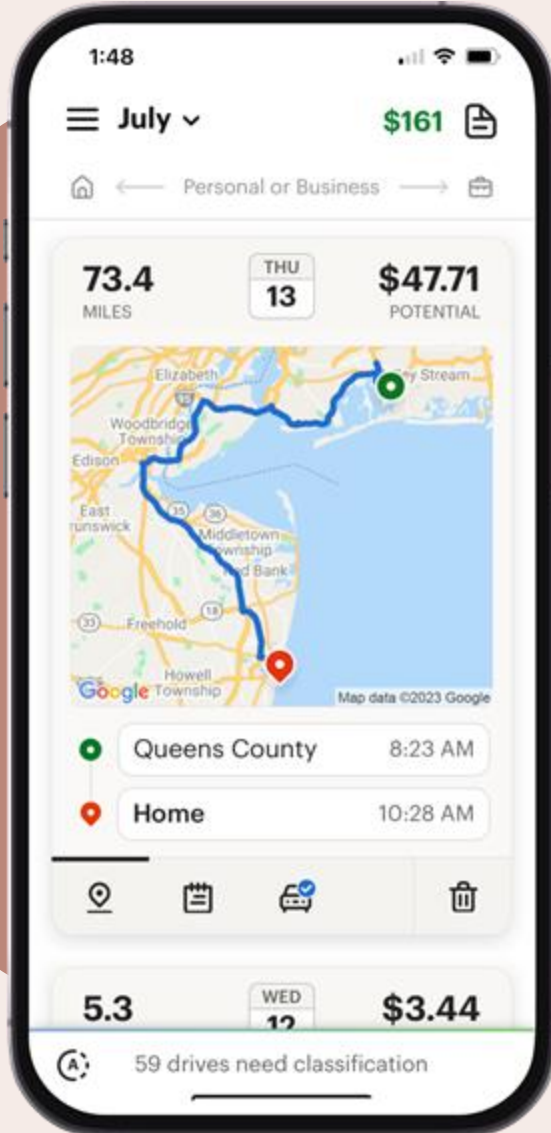
You can switch from Mileage to Actual but you **CANNOT** switch from Actual to Mileage

You can choose between two deduction methods:

- **Standard mileage rate**
  - Year 2024: \$0.67 per mile | 2025: \$0.70
  - Parking and tolls attributable to business use
- **Actual Expenses**
  - Actual expenses of operating your vehicle for business purposes, such as gas, oil, repairs, insurance, registration, depreciation, parking, tolls, etc.
  - This method may result in a higher deduction, but it requires meticulous record-keeping of all expenses.

# Vehicle Use for Business Purposes

## Important to keep a record!



- The law requires you to **substantiate your expenses with proper records** or sufficient evidence to verify your own testimony
- It doesn't matter which method you choose (mileage or actual expenses), you must keep a record of the miles!
  - You can keep a log of the miles driven and photos of your odometer.
  - You can use an application like MileIQ or QuickBooks.

# Hire your children

- **Savings on Payroll Taxes**

- **FICA** (Social Security and Medicare taxes) – Your child must be under 18 years of age
  - Social Security 6.2% (employee and employer).
  - Medicare 1.45% (employee and employer)
- Unemployment Taxes (**FUTA**) – Your child must be under 21 years of age.
- Your business receives a deduction for wages paid
- Your child will gain financial responsibility and may not have to pay income taxes.



# Hire your children: Example

Ana owns a flower shop. Her daughter, Lucy, who is 16 years old, has skills in web design and social media. Ana decides to hire Lucy to help create content for the company's social media and maintain its website.

## Details:

- Ana pays Lucy \$14,000 during the year for her services. Lucy uses the standard deduction method on her tax return. The standard deduction for a single individual in 2024 is \$14,600.





# Hire your children: Example

## Result:

- Since Lucy's income (\$14,000) is less than the standard deduction (\$14,600), she will not have to pay income taxes.
- Additional Benefits:
  - Ana can deduct the \$14,000 paid to Lucy as a business expense, which reduces her own taxable income.
  - Lucy gains work experience and develops valuable skills.
  - It fosters financial responsibility in Lucy.





A stack of papers and folders is shown on the left side of the slide. A large white arrow is superimposed over the stack, pointing from the left towards the right, towards the text area.

# Important Points!

- The work your child performs must be **legitimate and necessary** for the business.
- The work must comply with all state labor laws (including child labor laws).
- It is important to keep **accurate records** of payments and issue.
- Issue a W-2 form at the end of the year.
- Keep an **employment contract**.
  - Job description
  - The contract must include your child's job tasks.
  - The tax savings for FICA and FUTA The tax savings for FICA and FUTA do not apply if your business is incorporated or if your child is 18 years of age or older.

# Deducting Medical Expenses as a Sole Proprietor



## Health Insurance for Self-Employed Workers:

- You can deduct the costs of insurance that covers:
  - you,
  - your spouse,
  - your dependents, and
  - your children under 27 at the end of the fiscal year.
- "Above-the-line" deduction (above the Adjusted Gross Income line)

# Deducting Medical Expenses as a Sole Proprietor

## Health Insurance Deduction:



😊 Reduces taxable income

9	Add lines 1z, 2b, 3b, 4b, 5b, 6b, 7, and 8. This is your <b>total income</b>	9
10	Adjustments to income from Schedule 1, line 26	10
11	Subtract line 10 from line 9. This is your <b>adjusted gross income</b>	11
12	<b>Standard deduction or itemized deductions</b> (from Schedule A)	12

- ☹
- It does not reduce the business income, which is subject to self-employment tax.

# Deducting Medical Expenses as a Sole Proprietor



## Health Insurance Deduction:

- ☹️ Health Insurance Deduction: **Limited** to the amount of **net income** (profits) obtained from the **business** under which the insurance was established
- ☹️ You **cannot deduct** health insurance if you are **eligible for employer-subsidized** health insurance through your own job or your spouse's job, even if you do not participate in the employer-subsidized plan.

# Health Reimbursement Arrangement (HRA)

## Health Reimbursement Arrangement (IRC Sec.105)



- **Employer-funded** employee benefits plan that reimburses employees for qualified medical expenses.
  - The expenses may include deductibles, copays, insurance premiums, and other eligible medical expenses.
    - The HRA can only reimburse expenses that qualify as medical expenses under IRC Sec. 213(d).
- HRA funds come solely from the employer. Employees cannot contribute their own funds. The funds can only be used to reimburse qualified medical expenses.



# Health Reimbursement Arrangement (HRA)

Medical Expense Reimbursement Arrangement (IRC Sec. 105)



- **Maximum Limit:** The employer sets a maximum limit on the amount of money that can be reimbursed to an employee during a coverage period.
- Any unused amount of the maximum limit at the end of the coverage period may be carried over to the next year.

# Health Reimbursement Arrangement (HRA)

Medical Expense Reimbursement Arrangement (IRC Sec. 105)



## Benefits

- ☺ **Tax-deductible:** The employer can deduct contributions to the HRA.
- ☺ **Tax-free for employees:** The reimbursements employees receive from the HRA are generally tax-free, provided they are used for qualified medical expenses.
- ☺ **Simplification of Administration:** Compared to a traditional health plan, an HRA may be easier to manage, especially for small businesses.

# Health Reimbursement Arrangement (HRA): Tax Strategy

Medical Expense Reimbursement Arrangement(IRC Sec. 105)



## Steps to Execute the Strategy

The HRA creates tax deductions where there were none before.

For the max benefit of the Stratgy, you need:

- Operate as a Schedule C, E, or F business.
- Be married.
- Employ your spouse in your business.
- Not have other employees in any other business that you or your spouse own.

Description	Health Insurance for Self-Employed Workers	HRA (PLAN 105)
Limit on the amount of deductions.	Deductions are limited to the business income.	No limits. In fact, medical expenses could be combined with other expenses to produce a net operating loss.
Limit on the types of deductions.	Deductions are limited to the insurance premiums paid by the owner or the business.	The owner hires the spouse and covers them with family coverage. There are no limits on family medical expenses. The 105 plan can pay for all medical expenses, including insurance, copays, prescriptions, etc. The medical plan is deducted as an employee wellness benefit on Schedule C.
Insurance available through another employer	No deduction is obtained here.	Any insurance costs and other medical expenses that you or your spouse pay are deductible under the 105 plan.
Benefit of the deduction	Reduces income taxes	Reduces income taxes and self-employment taxes.
7.5% limit on medical expenses. (Schedule A)	It applies to medical expenses other than insurance and applies to medical insurance paid for by the spouse.	It does not apply. The 105 plan provides a business deduction for all medical expenses.

# Saving for the Future

## **Traditional IRA (Individual Retirement Account):**

- Annual contribution limit: \$7,000 (\$8,000 if over 50 years old).

## **SIMPLE IRA:**

- IRA with a higher contribution limit.
- Contribution limit: \$16,000 for 2024 | \$16,500 for 2025 (\$3,500 more if over 50 years old).
- Requires matching employee contributions or making profit-sharing contributions.
- Ideal for part-time businesses.
- This option offers a larger deduction compared to the simple IRA.





# Saving for the Future

- **SEP IRA (Simplified Employee Pension)**
  - Simple and flexible: Easy to set up and manage.
  - High contributions: You can contribute up to 25% of your net income as a self-employed individual, with a maximum limit of \$69,000 for 2024 | \$70,000 for 2025.
  - Tax deduction: Contributions are deductible.
  - Tax-deferred growth: Your savings grow with tax deferral until retirement.



# Saving for the Future

## Solo 401(k):

- **Greater flexibility:** Allows contributions as an "employee" and as an "employer," which increases the contribution limit. Investment options: Offers a wide range of investment choices.
- **Contribution limit:** You can contribute the lesser of your compensation or the annual contribution limit (\$69,000 for 2024 | \$70,000 for 2025). You cannot contribute more than you earn.
- **Loan availability:** You can borrow money from your Solo 401(k) under certain circumstances.



# Saving for the Future

## **Roth IRA:**

- Contributions are not deductible, but withdrawals are generally tax-free.
- Contribution limit: \$7,000 in 2024 (\$8,000 for those aged 50 or older), with Adjusted Gross Income (AGI) limits.
- Possibility of converting traditional IRAs to a Roth IRA.

## **Roth 401(k):**

- No tax deduction for contributions, but with a higher contribution limit.
- No income limits for contributions.



Retirement Plan	Contribution Limit (Employee/ <del>Employer</del> )	Tax Deduction	Taxes on Distributions	Early Withdrawal Penalty	Administrative Complexity
<b>Traditional IRA</b>	\$7,000 (2024 & 2025) / Not applicable	Yes	Yes	10% before age 59 ½	Low
<b>SEP IRA</b>	25% of net earnings or \$69,000 (2024)   \$70,000 (2025)	Yes	Yes	10% before age 59 ½	Low
<b>SIMPLE IRA</b>	\$16,000 (2024)   \$70K (2025) / 3% matching or 2% non-elective contribution	Yes	Yes	10% before age 59 ½	Moderate
<b>Solo 401(k)</b>	\$23,000 (2024)   \$23,500 (2025) / 25% of net earnings, up to \$69,000 total (2024)   \$70,000 (2025)	Yes	Yes	10% before age 59 ½	High
<b>Roth IRA</b>	\$7,000 (2024 & 2025) / Not applicable	No	No (if certain conditions are met)	10% before age 59 ½ (except for contributions)	Low
<b>Roth 401(k)</b>	\$23,000   \$23,500 (2025) / 25% of net earnings, up to \$69,000 total (2024)   \$70,000 (2025)	No	No (if certain conditions are met)	10% before age 59 ½ (except for contributions)	High

# Business Travel Deduction



## Expense Categories

**Transportation Expenses:** If you spend **most of your travel days** on business activities, you can deduct 100% of your direct-route transportation costs. If most of your days are personal, you receive no deduction. (Includes airfare, train, bus, taxis, etc.)

**Living Expenses:** During the trip, you can deduct the cost of sustaining yourself, including lodging and meals. These expenses can be deducted on business days but not on personal days.

**Business-Related Expenses:** Some expenses during your trip are always considered business expenses. If you have business-related costs such as printing, shipping, or communication, you can deduct these expenses even on personal days.



# Business Travel Deduction

## Requirements

- **Business Purpose:** The trip must be primarily for business purposes.
- **Documentation:** Keep all receipts and proof of expenses. Maintain a detailed record of the trip's purpose and business-related activities.
- **Duration:** If the trip combines business and leisure, the deductible portion is limited to the time spent on business activities.



# Tax Strategy: Business Travel Deduction with Personal Time

*Maximize Business Travel Deductions, Even with Personal Time!*

## Identify/Create a Workday

- The travel day counts as a workday if you travel directly to your business destination.
- Work more than 4 hours.
- If someone (a partner, employer, client, or consumer) requires your presence at a specific location for a legitimate business purpose, it qualifies as a workday.
- If a weekend, holiday, or other necessary wait day falls between two workdays, it counts as a workday if returning home is impractical due to time constraints or costs.



# Tax Strategy: Business Travel Deduction with Personal Time

*Maximize Business Travel Deductions, Even with Personal Time!*



## Identify/Create a Workday

- Any travel day counts as a workday if circumstances beyond your control prevent you from pursuing your business objective.
- If you can obtain a **significant discount** on your business trip by traveling one or two days earlier or later, and the savings exceed the cost of the additional days, those days may also count.

You must keep **accurate records** of the time spent on each activity. Be sure to document this in your travel logs.



Scan the QR code to get a copy of the slides and resources from our session.

## Tax Strategies for Business Owners



[nadiacpa.com/tax-strategies](https://nadiacpa.com/tax-strategies)



*Nadia Rodriguez*.CPA.CTC  
TAX ADVISOR & COACH