

# Top 10 Tax Tips for Small and Growing Businesses

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**1. Writing It Off: Deductions.** Businesses can deduct all "ordinary and necessary" business expenses from their revenues to reduce their taxable income. Some deductions are obvious—expenditures in such areas as business travel, equipment, salaries, or rent. But the rules governing write-offs aren't always simple. Don't overlook these potential deductions:

- **Business losses.** Business losses can be deducted against a business owner's personal income to reduce taxes. If a business owner's losses exceed personal income for the year, some of the

year's business losses can be used to reduce taxable income in future years.

- **Trips that combine business and pleasure.** If more than half of a business trip is devoted to business, deduct the traveling costs, as well as other business-related expenses.

2. **Employee Taxes.** If a business has employees, a variety of taxes will have to be withheld from their salaries. Among them are:

- **Withholding.** Social Security (FICA), Medicare and federal and state income taxes must be withheld from employees' pay.
- **Employer matching.** Businesses must match the FICA and Medicare taxes and pay them along with employees.
- **Unemployment tax.** Businesses must pay federal and state unemployment taxes.

3. **Quarterly Estimated.** This area trips up many an entrepreneur and is especially vexing for home-based businesses. Failure to keep up with estimated tax bills can create cash flow problems as well as the potential for punishing IRS penalties. Among the issues are:

- **Who should pay?** A business probably must pay quarterly estimated taxes if the total tax bill in a given year will exceed \$500.
- **How much should you pay?** By the end of the year, either 90 percent of the tax that is owed or 100 percent of last year's tax must be paid (the figure is 110 percent if a business's income exceeds \$150,000). Businesses can subtract their expenses from their income each quarter and apply their income tax rate (and any self-employment tax rate) to the resulting figure (their quarterly profit).

4. **Sales Taxes.** Most services remain exempt from sales tax, but most products are taxable (typical exceptions are food and drugs). If a business owner sells a product or service that is subject to

sales tax, he or she must register with the state's tax department. Then taxable and nontaxable sales must be tracked and included on the company's sales tax return.

- Having what is considered a "presence" in a state is the criteria used by the IRS to determine whether or not you are liable for paying state sales tax.
- If you do not have a physical presence in another state, but sell items via the Internet or by catalog in that state, you can be subject to a state's "use tax," but typically not to their state sales tax. A "presence" in another state does not necessarily mean that you have a retail outlet in that state. If you have an office, warehouse, or employees working for you in that state, the IRS may consider you to have a presence in that state. Make sure you are aware of your sales tax responsibilities in all states in which you are doing business.

**5. Keep Tax Documents for at Least Seven Years.** Good record keeping saves money. Some things like copies of business tax returns, licenses, incorporation papers, and capital equipment expenses should be preserved indefinitely. Keep any tax-related documents (e.g., expense receipts, client 1099 forms, and vehicle mileage logs) for a minimum of seven years.

**6. Charitable Contributions.** Unless your business is a C corporation, charitable contributions typically "flow through" the business and are claimed as deductions on the individual tax returns of the shareholders of the company. That's true whether you're running a sole proprietorship, partnership, limited liability corporation, or S corporation.

- If you want to get the maximum tax benefits, you should know these basic rules:
- Only contributions to charities listed as "qualified organizations" by the IRS are deductible. Consult IRS Publication 78 for a list of qualified organizations or search online at the IRS home page.

- Contributions of more than \$250 require a letter of receipt from the qualified organization. For contributions of less than \$250, a canceled check is sufficient.
- In general, donations of property can be deducted for their fair market value at the time of the contribution. You cannot deduct a contribution that has already been written off as a depreciated asset.
- You cannot deduct the value of time or services that you volunteer.
- You cannot deduct the part of a contribution that benefits you. If you receive a gift in exchange for a charitable donation, for example, you can deduct only the amount of the contribution that exceeds the value of the gift.
- In general, you can deduct contributions only in the year you make them. Pledged contributions cannot be deducted until they are actually paid.

**7. Important Tax Deadlines for Businesses.** April 15 isn't the only important tax date for business owners. The following dates are important to keep in mind:

- **Annual returns.** Most annual returns are due April 15 for unincorporated companies and S corporations. C corporations must file annual corporate returns within two-and-a-half months after the close of their fiscal year.
- **Estimated taxes.** Estimated taxes are due four times a year: April 15, June 15, September 15, and January 15.
- **Sales taxes.** Sales taxes are due quarterly or monthly, depending on the rules in your state.
- **Employee taxes.** Depending on the size of your payroll, employee taxes are due weekly, monthly or quarterly.

**8. Deducting Loans.** Most business loans are not considered business income. One notable exception is a situation in which you negotiate with a creditor or lender to reduce your debt. If any debt is forgiven, you will owe taxes on this amount. On the other hand, business loans can offer substantial tax benefits. The principal and interest you pay on your loan are business expenses, and you can deduct them from your taxes as such. In order to take advantage of a tax deduction, you must report the total amount of the loan, and the assets and expenditures financed must be necessary to operating the business.

**9. Tax Audits.** The very thought of an IRS audit is enough to make most business owners break into a cold sweat. But not all audits are created alike: There are several different types of tax audits, ranging from simple requests for a particular piece of information to comprehensive reviews that cover every aspect of a business.

- **Correspondence Audit** This is a relatively simple procedure in which the IRS asks you to document an item on your return by a specified date. This is usually a routine test for compliance with certain items on your return.
- **Office Audit** The IRS may ask you to report to a nearby IRS office and document one or more items on your return. You may be able to send them copies of this proof in advance of the appointment and resolve the issue without actually going to the office.
- **Field Audit** This is the audit most people dread. The IRS will ask you to provide documentation of various items on your return and to meet with an IRS agent for a thorough review of your records. Be prepared to answer the auditor's questions, but don't volunteer information.
- **Taxpayer Compliance Measurement Program Audit** This rather lengthy and detailed audit asks you to document and prove every single item in your return. The IRS and Congress use the data from these audits for research and statistical

purposes. These audits are arbitrary, and anyone can face them regardless of how carefully they prepare their tax returns.

- **Criminal-Investigation Audit** If you are suspected of tax evasion, the IRS will conduct a criminal-investigation audit. If they prove that you have purposefully not paid your income taxes, you can face substantial fines and even jail time. Obviously, you should retain qualified legal counsel if you face this type of audit.

10. **The IRS.** The IRS small business [Web site](#) provides a wealth of information to small and growing businesses. There's a section for businesses getting off the ground that includes a handing checklist and advice on choosing business structure. It's particularly helpful on important topics such as employee taxes and business tax deductions. In addition, it has a list of small business resources with links to other government resources for small businesses. Have a question about these tax tips? [Connect with a SCORE mentor](#) online or in your community today!