

ewh Small Business Accounting Presents

Tax Essentials

The Basics of Taxes



A Workshop Exclusively for Small Business Owners and Their Team

Presented by Joseph Hastreiter

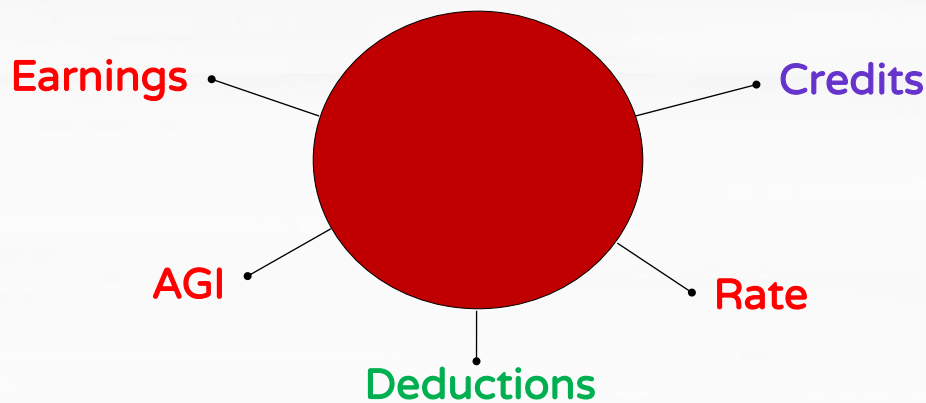


Implementing a Tax Strategy

Deductions, Vehicles and Saving on Taxes



5 Main Factors that Determine Your Tax Position



To demonstrate how these items impact your tax position:

Total Income for Tax Payer \$110

Retirement Plan Contributions \$5

AGI (Adjusted Gross Income) \$105

Deductions (Standard or Itemized) \$5

Total Taxable Income \$100

Tax Rate x 20%

Tax Owed \$20

Tax Credits \$5

Total Tax Owed \$15

Deductions: Your deductions reduce the amount of income that is subject to taxes, determining the amount of your income that is taxable.

Tax Rate: The Tax Rate, (determined by your tax bracket) multiplied by your taxable income, determines the amount of tax you owe.

Tax Credits: Is an actual \$1 for \$1 reduction on the amount of taxes you owe, reducing your actual tax liability.



EXEMPTIONS
ELIMINATED

ALIMONY
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ELIMINATED

MOVING
EXPENSES
ELIMINATED

ALIMONY
PAID
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TUTION &
FEES
ELIMINATED

Form 1040		Department of the Treasury—Internal Revenue Service (99)		2018		OMB No. 1545-0074		IRS Use Only—Do not write or staple in this space.																										
For the year Jan. 1–Dec. 31, 2016, or other tax year beginning						2016, ending		20																										
Your first name and initial				Last name				Your social security number																										
If a joint return, spouse's first name and initial				Last name				Spouse's social security number																										
Home address (number and street). If you have a P.O. box, see instructions.						Apt. no.		▲ Make sure the SSN(s) above and on line 6c are correct.																										
City, town or post office, state, and ZIP code. If you have a foreign address, also complete spaces below (see instructions).						Presidential Election Campaign																												
Foreign country name		Foreign province/state/county		Foreign postal code		Check here if you, or your spouse if filing jointly, want \$3 to go to this fund. Checking a box below will not change your tax or refund. <input type="checkbox"/> You <input type="checkbox"/> Spouse																												
Filing Status		1 <input type="checkbox"/> Single 2 <input type="checkbox"/> Married filing jointly (even if only one had income) 3 <input type="checkbox"/> Married filing separately. Enter spouse's SSN above and full name here. ▶ 4 <input type="checkbox"/> Head of household (with qualifying person). (See instructions.) If the qualifying person is a child but not your dependent, enter this child's name here. ▶ 5 <input type="checkbox"/> Qualifying widow(er) with dependent child																																
Exemptions		6a <input type="checkbox"/> Yourself. If someone can claim you as a dependent, do not check box 6a. b <input type="checkbox"/> Spouse c Dependents: <table border="1"> <thead> <tr> <th>(1) First name</th> <th>Last name</th> <th>(2) Dependent's social security number</th> <th>(3) Dependent's relationship to you</th> <th>(4) <input type="checkbox"/> if child under age 17 qualifying for child tax credit (see instructions)</th> </tr> </thead> <tbody> <tr><td> </td><td> </td><td> </td><td> </td><td><input type="checkbox"/></td></tr> <tr><td> </td><td> </td><td> </td><td> </td><td><input type="checkbox"/></td></tr> <tr><td> </td><td> </td><td> </td><td> </td><td><input type="checkbox"/></td></tr> <tr><td> </td><td> </td><td> </td><td> </td><td><input type="checkbox"/></td></tr> </tbody> </table> d Total number of exemptions claimed								(1) First name	Last name	(2) Dependent's social security number	(3) Dependent's relationship to you	(4) <input type="checkbox"/> if child under age 17 qualifying for child tax credit (see instructions)					<input type="checkbox"/>					<input type="checkbox"/>					<input type="checkbox"/>					<input type="checkbox"/>
(1) First name	Last name	(2) Dependent's social security number	(3) Dependent's relationship to you	(4) <input type="checkbox"/> if child under age 17 qualifying for child tax credit (see instructions)																														
				<input type="checkbox"/>																														
				<input type="checkbox"/>																														
				<input type="checkbox"/>																														
				<input type="checkbox"/>																														
Income		7 Wages, salaries, tips, etc. Attach Form(s) W-2 8a Taxable interest. Attach Schedule B if required b Tax-exempt interest. Do not include on line 8a 8b 9a Ordinary dividends. Attach Schedule B if required b Qualified dividends 9b 10 Taxable refunds, credits, or offsets of state and local income taxes 11 Alimony received 12 Business income or (loss). Attach Schedule C or C-EZ 13 Capital gain or (loss). Attach Schedule D if required. If not required, check here <input type="checkbox"/> 14 Other gains or (losses). Attach Form 4797 15a IRA distributions 15b Taxable amount 16a Pensions and annuities 16b Taxable amount 17 Rental real estate, royalties, partnerships, S corporations, trusts, etc. Attach Schedule E 18 Farm income or (loss). Attach Schedule F 19 Unemployment compensation 20a Social security benefits 20b Taxable amount 21 Other income. List type and amount 22 Combine the amounts in the far right column for lines 7 through 21. This is your total income ▶																																
Adjusted Gross Income		23 Educator expenses 24 Certain business expenses of reservists, performing artists, and fee-basis government officials. Attach Form 2106 or 2106-EZ 25 Health savings account deduction. Attach Form 8889 26 Moving expenses. Attach Form 3903 27 Deductible part of self-employment tax. Attach Schedule SE 28 Self-employed SEP, SIMPLE, and qualified plans 29 Self-employed health insurance deduction 30 Penalty on early withdrawal of savings 31a Alimony paid <input type="checkbox"/> b Recipient's SSN <input type="checkbox"/> 32 IRA deduction 33 Student loan interest deduction 34 Tuition and fees. Attach Form 6511 35 Domestic production activities deduction. Attach Form 8803 36 Add lines 23 through 35 37 Subtract line 36 from line 22. This is your adjusted gross income ▶																																

Form 1040 (2017) Page 2

Tax and Credits

38 Amount from line 37 (adjusted gross income) 38

39a Check ☐ You were born before January 2, 1953, ☐ Blind. Total boxes checked ▶ 39a

if: ☐ Spouse was born before January 2, 1953, ☐ Blind.

b If your spouse itemizes on a separate return or you were a dual-status alien, check here ▶ 39b ☐

40 Itemized deductions (from Schedule A) or your standard deduction (see left margin) 40

41 Subtract line 40 from line 38 41

42 Exemptions. If line 38 is \$150,000 or less, multiply \$4,000 by the number on line 6d. Otherwise, see instructions 42

43 Taxable income. Subtract line 42 from line 41. If line 42 is more than line 41, enter -0- 43

44 Tax (see instructions). Check if any from: a ☐ Form(s) 8814 b ☐ Form 4972 c ☐ 44

45 Alternative minimum tax (see instructions). Attach Form 6251 45

46 Excess advance premium tax credit repayment. Attach Form 8962 46

47 Add lines 44, 45, and 46 47

48 Foreign tax credit. Attach Form 1116 if required 48

49 Credit for child and dependent care expenses. Attach Form 2441 49

50 Education credits from Form 8863, line 19 50

51 Retirement savings contributions credit. Attach Form 8880 51

52 Child tax credit. Attach Schedule 8812, if required 52

53 Residential energy credit. Attach Form 5695 53

54 Other credits from Form: a ☐ 3800 b ☐ 8801 c ☐ 54

55 Add lines 48 through 54. These are your total credits 55

56 Subtract line 55 from line 47. If line 55 is more than line 47, enter -0- 56

Other Taxes

57 Self-employment tax. Attach Schedule SE 57

58 Unreported social security and Medicare tax from Form: a ☐ 4137 b ☐ 8919 58

59 Additional tax on IRAs, other qualified retirement plans, etc. Attach Form 5329 if required 59

60a Household employment taxes from Schedule H 60a

b First-time homebuyer credit repayment. Attach Form 5405 if required 60b

61 Health care: individual responsibility (see instructions) Full-year coverage ☐ 61

62 Taxes from: a ☐ Form 8959 b ☐ Form 8960 c ☐ Instructions; enter code(s) 62

63 Add lines 56 through 62. This is your total tax 63

Payments

64 Federal income tax withheld from Forms W-2 and 1099 64

65 2017 estimated tax payments and amount applied from 2016 return 65

66a Earned income credit (EIC) 66a

b Nontaxable combat pay election 66b

67 Additional child tax credit. Attach Schedule 8812 67

68 American opportunity credit from Form 8863, line 8 68

69 Net premium tax credit. Attach Form 8962 69

70 Amount paid with request for extension to file 70

71 Excess social security and tier 1 RRTA tax withheld 71

72 Credit for federal tax on fuels. Attach Form 4136 72

73 Credits from Form: a ☐ 2439 b ☐ Reserved c ☐ 8885 d ☐ 73

74 Add lines 64, 65, 66a, and 67 through 73. These are your total payments 74

Refund

75 If line 74 is more than line 63, subtract line 63 from line 74. This is the amount you overpaid 75

76a Amount of line 75 you want refunded to you. If Form 8888 is attached, check here ▶ ☐ 76a

Direct deposit? See instructions.

b Routing number ▶ c Type: ☐ Checking ☐ Savings

d Account number ▶

77 Amount of line 75 you want applied to your 2018 estimated tax ▶ 77

Amount You Owe

78 Amount you owe. Subtract line 74 from line 63. For details on how to pay, see instructions ▶ 78

79 Estimated tax penalty (see instructions) 79

Third Party Designee

Do you want to allow another person to discuss this return with the IRS (see instructions)? ☐ Yes. Complete below ☐ No

Designee's name ▶

Sign Here

Under penalties of perjury, I declare that I have prepared this return accurately and truthfully.

Your signature ▶

Spouse's signature ▶

Print/Type pre ▶

Paid Preparer Use Only

Firm's name ▶ Firm's EIN ▶

Firm's address ▶ Phone no. ▶

ELIMINATED

Increased from \$1,000 to \$2,000. Can get up to \$1,400 back, even if tax liability was \$0

Tax Penalty: Generally, most taxpayers will avoid this penalty if they either...

- Owe less than \$1,000 in tax after subtracting their withholding and estimated tax payments, or
- If they paid at least 90% of the tax for the current year or
- 100% of the tax shown on the return for the prior year, whichever is smaller.

That's why paying Quarterly Estimated taxes are so important!

SCHEDULE A (Form 1040)		Itemized Deductions		OMB No. 1545-0074	
Department of the Treasury Internal Revenue Service (99)		Go to www.irs.gov/ScheduleA for instructions and the latest information.		2018	
Name(s) shown on Form 1040		Caution: If you are claiming a net qualified disaster loss on Form 4684, see the instructions for line 28.		Your social security number	
Medical and Dental Expenses	Caution: Do not include expenses reimbursed or paid by others. 1 Medical and dental expenses (see instructions) 1 2 Enter amount from Form 1040, line 38 2 3 Multiply line 2 by 7.5% (0.075) 3 4 Subtract line 3 from line 1. If line 3 is more than line 1, enter -0- 4				
Taxes You Paid	5 State and local (check only one box): a <input type="checkbox"/> Income taxes, or b <input type="checkbox"/> General sales taxes 6 Real estate taxes (see instructions) 6 7 Personal property taxes 7 8 Other taxes. List type and amount 8 9 Add lines 5 through 8 9				Capped at \$10,000 Total
Interest You Paid	10 Home mortgage interest and points reported to you on Form 1098 10 11 Home mortgage interest not reported to you on Form 1098. If paid to the person from whom you bought the home, see instructions and show that person's name, identifying no., and address 11 12 Points not reported to you on Form 1098. See instructions for special rules 12 13 Reserved for future use 13 14 Investment interest. Attach Form 4952 if required. See instructions 14 15 Add lines 10 through 14 15				Up to \$750,000 if closed after 12/15/17. \$1 Million of debt prior to that.
Gifts to Charity	16 Gifts by cash or check. If you made any gift of \$250 or more, see instructions 16 17 Other than by cash or check. If any gift of \$250 or more, see instructions. You must attach Form 8283 if over \$500 17 18 Carryover from prior year 18 19 Add lines 16 through 18 19				
Casualty and Theft Losses	20 Casualty or theft loss(es) other than net qualified disaster losses. Attach Form 4684 and enter the amount from line 18 of that form. See instructions 20				Only for Declared Federal Disaster Areas
Job Expenses and Certain Miscellaneous Deductions	21 Unreimbursed employee expenses—job travel, union dues, job education, etc. Attach Form 2106 or 2106-EZ if required. See instructions. 21 22 Tax preparation fees 22 23 Other expenses—investment, safe deposit box, etc. List type and amount 23 24 Add lines 21 through 23 24 25 Enter amount from Form 1040, line 38 25 26 Multiply line 25 by 2% (0.02) 26 27 Subtract line 26 from line 24. If line 26 is more than line 24, enter -0- 27				Eliminated
Other Miscellaneous Deductions	28 Other—from list in instructions. List type and amount 28				
Total Itemized Deductions	29 Is Form 1040, line 38, over \$156,900? <input type="checkbox"/> No. Your deduction is not limited. Add the amounts in the far right column for lines 4 through 28. Also, enter this amount on Form 1040, line 40. <input type="checkbox"/> Yes. Your deduction may be limited. See the Itemized Deductions Worksheet in the instructions to figure the amount to enter. 30 If you elect to itemize deductions even though they are less than your standard deduction, check here <input type="checkbox"/>				

Deductions

The amount of the federal standard deduction varies by year and is based on each taxpayer's filing characteristics. Taxpayers have the option to take a **standard deduction** or to **itemize deductions**. A taxpayer itemizes when their itemized deductions exceed their standard deduction.

<u>Standard Deduction</u>	<u>2017</u>	<u>2018</u>	<u>2021</u>
Single	6,350	12,000	12,550
Married, Filing Jointly	12,700	24,000	25,100
Head of Household	9,350	18,000	18,800

Itemized Deductions

State & Local Taxes	No Cap*	{ The sum of these is capped at \$10,000
Property Taxes	No Cap*	
Mortgage Interest	Interest on home mortgage debt up to \$750,000 if closed after 12/15/17. Prior to that it is interest of up to \$1 million of debt.	

Deductions that didn't change: Student loan interest, gambling expenses

Modified Deductions: The casualty deduction can only be taken now if it is a federally declared national disaster and exceeds 10% of your AGI, medical deductions increased to expenses exceeding 7.5% of AGI instead of 10%.

Deductions eliminated: Tuition and Fees, Alimony payments for divorces finalized after 2018, moving expenses, personal exemptions, unreimbursed employment expenses, tax preparation fees, advisory fees, all miscellaneous deductions in excess of 2% of AGI.

Additional Notes:

- You can still exclude a gain (\$250,000 Single/\$500,000 MFJ) on selling your primary residence you lived there 2 out of the last 5 years.
- The child tax credit increased from \$1,000 to 2,000, and the maximum refundable amount is \$1,400 if your tax liability was \$0. Additionally, income phase outs for taking the child tax credit increased.
- Businesses:** Entertainment expenses are no longer deductible. Employer provided meals to their employees for the convenience of the employer are now only 50% deductible.

**State and Local Taxes, Property Taxes and Mortgage Interest in 2017: even though they had no cap were subject to income phase out provisions.*

Note: Some deductions are limited or phased out, based on income and other limitations. Also, this is not an all inclusive list, just some of the main items affecting most taxpayers.

Talk to your tax professional for advice on your specific tax situation.

Single

<u>New Rate</u>	<u>New Income Bracket</u>	<u>Old Rate</u>	<u>Old Income Bracket</u>
10%	Up to \$9,525	10%	Up to \$9,525
12%	\$9,525-\$38,700	15%	\$9,525-\$38,700
22%	\$38,700-\$82,500	25%	\$38,700-\$93,700
24%	\$82,500 – \$157,500	28%	\$93,700-\$195,450
32%	\$157,500-\$200,000	33%	\$195,450-\$424,950
35%	\$200,000-\$500,000	35%	\$424,950-\$426,700
37%	\$500,000+	39.6%	\$426,700+

Married Filing Jointly

<u>New Rate</u>	<u>New Income Bracket</u>	<u>Old Rate</u>	<u>Old Income Bracket</u>
10%	Up to \$19,050	10%	Up to \$19,050
12%	\$19,050-\$77,400	15%	\$19,050-\$77,400
22%	\$77,400-\$165,000	25%	\$77,400-\$156,150
24%	\$165,000-\$315,000	28%	\$156,150-\$237,950
32%	\$315,000-\$400,000	33%	\$237,950-\$424,950
35%	\$400,000-\$600,000	35%	\$424,950-\$480,050
37%	\$600,000+	39.6%	\$480,050+

Talk to your tax professional for advice on your specific tax situation.



Head of Household

<u>New Rate</u>	<u>New Income Bracket</u>	<u>Old Rate</u>	<u>Old Income Bracket</u>
10%	Up to \$13,600	10%	Up to \$13,600
12%	\$13,600-\$51,800	15%	\$13,600-\$51,800
22%	\$51,800-\$82,500	25%	\$51,800-\$133,850
24%	\$82,500-\$157,500	28%	\$133,850-\$216,700
32%	\$157,500-\$200,000	33%	\$216,700-\$424,950
35%	\$200,000-\$500,000	35%	\$424,950-\$453,350
37%	\$500,000+	39.6%	\$453,350+

Corporations - Old Rates

<u>Over</u>	<u>But Not Over</u>	<u>Tax is</u>	<u>Of Amount Over</u>
\$0	\$50,000	15%	\$0
50,000	75,000	\$7,500 + 25%	50,000
75,000	100,000	13,750 + 34%	75,000
100,000	335,000	22,250 + 39%	100,000
335,000	10,000,000	113,900 + 34%	335,000
10,000,000	15,000,000	3,400,000 + 35%	10,000,000
15,000,000	18,333,333	5,150,000 + 38%	15,000,000
18,333,333	_____	35%	0

After 2017 all Corporations regardless of income level will pay 21%.

Talk to your tax professional for advice on your specific tax situation.



Meal & Entertainment Expenses

	2017 Expenses (old rules)	2021 Expenses (new rules)
Office Holiday Parties Summer Office Picnic	100% deductible	100% deductible
Entertaining Clients	Meals with substantial business discussion—50% deductible	Meals with substantial business discussion 100% deductible -For 2021-2022
	Entertainment tickets, 50% deductible for face value of ticket; anything above face value is non-deductible	No deduction for entertainment expenses
	Tickets to qualified charitable events are 100% deductible	Entertainment includes but is not limited to sporting events, golf outings, theaters, amusements etc.
Employee Travel Meals	50% deductible	50% deductible
Meals Provided for Convenience of Employer	100% deductible provided they are excludible from employees' gross income as de minimis fringe benefits; otherwise, 50% deductible	50% deductible (nondeductible after 2025)

Tracking and Documenting Expenses

Your monthly expense tracking methods may need to be updated. You may need to categorize your expenses using separate general ledger accounts: business meals, entertainment, and recreational/social employee expense accounts.

Documentation of the expense is important. A receipt with a detailed description is needed to substantiate any expenses in an audit. Lacking adequate documentation and a receipt can lead to the disallowance of those deductions.

Talk to your tax professional for advice on your specific tax situation or for more information on taxes register for our Tax Essentials workshop by visiting www.ewhsba.com



What Your Business Needs to File?

Balance Sheet

Cash	
	Profits

Profit & Loss

Profits

Sole Prop: Sch C

Must file a Profit and Loss Statement but do not need to file a Balance Sheet but the bank may request it

Partnerships and C Corp

Need to file a Balance Sheet if they have...
Over \$250,000 in sales or their

Tax Planning: Section 179 Expense

Let's say you are contemplating purchasing a piece of equipment. You are wondering if you should purchase it this year or next year. You know you are going to need to purchase this piece of equipment, it is now just a matter of when. So you consult with your accountant, what will be your best option from a tax perspective.

The equipment costs \$6,000. It will be Expensed (Depreciated/Used up) over 5 years. Which means you would get \$1,200 of depreciation expense per year. This means you get to deduct that much of the expense each year.

What if we Section 179 it and Expense it all in the first year? How does that affect taxes?

Taxes Before Section 179

Depreciation	- 1,200

Less Taxes Owed @ 25% Rate \$ 300

Taxes After Section 179

Depreciation	- 6,000

Less Taxes Owed @ 25% Rate \$ 1,500

This creates a \$1,200 tax savings in the current year.

However, if you were expecting bigger profits in the next few years, we might save that depreciation expense for those years to reduce the profit then, as opposed to now.



Notes

Depreciation Expenses and Section 179



Tax Planning: Cost Segregation Study

You purchased a building for	\$200,000
It will be depreciated over	39.5 Years
To keep it simple we will use	40 Years
Yearly depreciation expenses	\$ 5,000
Based on a Cost Segregation study the following amount of the property was reclassified as 5 year property	\$100,000
Depreciated <i>(Expensed over 5 years, not over 40 years)</i>	5 Year Property
Extra yearly depreciation expense	\$ 20,000
Normal 40 year depreciation <i>(100,000 / 40 years = \$2,500)</i>	\$ 2,500
Total Expense Deduction	\$22,500

Taxes Before Cost Segregation

Depreciation	-5,000

Less Taxes Owed @ 25% Rate **\$ 1,250**

Taxes After Cost Segregation

Depreciation	-22,500

Less Taxes Owed @ 25% Rate **\$ 5,500**

Tax Planning: Cost Segregation Study

You purchased a building for	\$200,000
It will be depreciated over	25 Years
To keep it simple we will use	40 Years
Yearly depreciation expenses	\$ 8,000
Based on a Cost Segregation study the following amount of the property was reclassified as 5 year property	\$100,000
Depreciated <i>(Expensed over 5 years, not over 40 years)</i>	5 Year Property
Extra yearly depreciation expense	\$ 20,000
Normal 25 year depreciation <i>(100,000 / 40 years = \$2,500)</i>	\$ 4,000
Total Expense Deduction	\$24,000

Taxes Before Cost Segregation

Depreciation	-8,000

Less Taxes Owed @ 25% Rate **\$ 1,250**

Taxes After Cost Segregation

Depreciation	-24,000

Less Taxes Owed @ 25% Rate **\$ 5,500**

Loan Payments

Balance Sheet

Cash	\$10,000	
		N/P \$10,000

- Are loans received income?
- Only interest is deductible, principal is not deductible

Profit & Loss

Interest	- \$500
Profits	

- Borrow over 2 years @ 5% interest
- First year principal is \$5,000
- Interest is \$500
- Total payment is \$5,500
- Only the \$500 of interest is deductible as an expense

Notes

Loan Payments



The Value of Being an S Corporation

The benefit of being an S Corporation is it reduces your Self Employment Tax. The Self Employment Tax is the 15.3% that you as a business owner pay on the profits of your business.

This tax is imposed because it is the 7.65% (Social Security and Medicare) tax paid as an employee plus 7.65% you as the employer pays (Employers Match for the Social Security and Medicare). All of your employees have 7.65% deducted from their paycheck for Social Security and Medicare, so this is the same for yourself. And, just like you have to match their portion, you also have to match yours. Which is how you get to the 15.3%.

As an S Corp, you have 2 types of income; W-2 and Profit (of the business). In a S Corp, only your W-2 income is subject to the 15.3% Self Employment Tax. Your profit is not subject to the 15.3%. State and Federal Taxes still apply, just as if you were not an S Corp.

Below is an illustration of the tax savings of being an S Corporation.

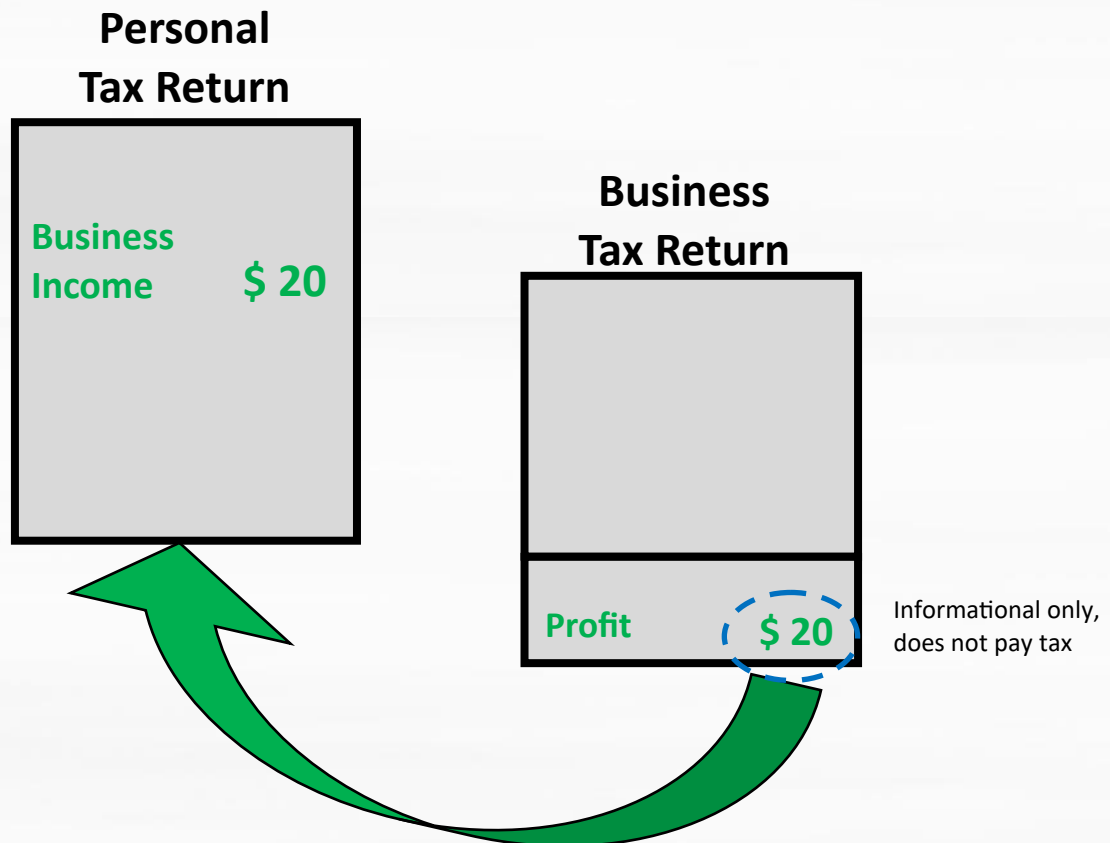
Business Type: Sole Proprietor Partnership LLC Single Member LLC Partnership		Business Type: S Corporation	
Net Income / Profit:	\$100,000	Net Income / Profit:	\$100,000
		Less: Reasonable Wage (W-2)	<u>50,000</u>
		Net Income / Profit	\$50,000
Self Employment Tax	<u>*15.3</u>	Self Employment Tax	<u>*15.3</u>
Total Self Employment Tax	\$15,300	Total Self Employment Tax	\$7,650

Discuss with your accountant if becoming an S Corporation is an option you have that enables you to keep more money in your pocket.



What is a Pass-Through Entity?

A Pass-Through Entity such as a Sole Proprietor, Partnership LLC, or S Corporation, file an informational only return with the Government, and the business itself does not pass taxes. The income flows through to the owner's personal income tax return and pays tax on it personally.

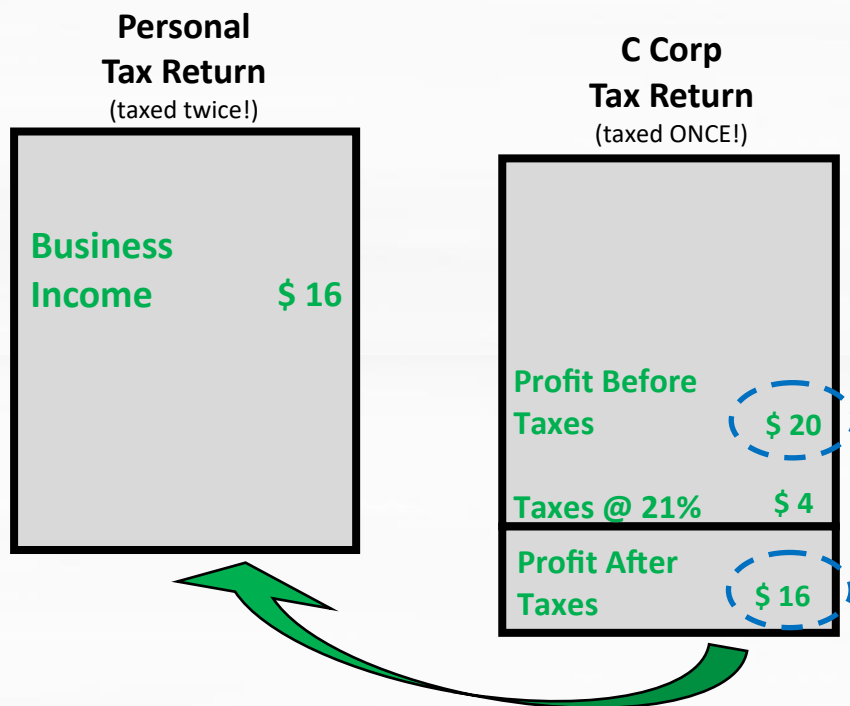


Talk to your tax professional for advice on your specific tax situation.

What is Double Taxation?

In a C Corporation, the corporation itself pays taxes on its profit. In this case the C Corporation pays \$4 in taxes on the \$20 profit.

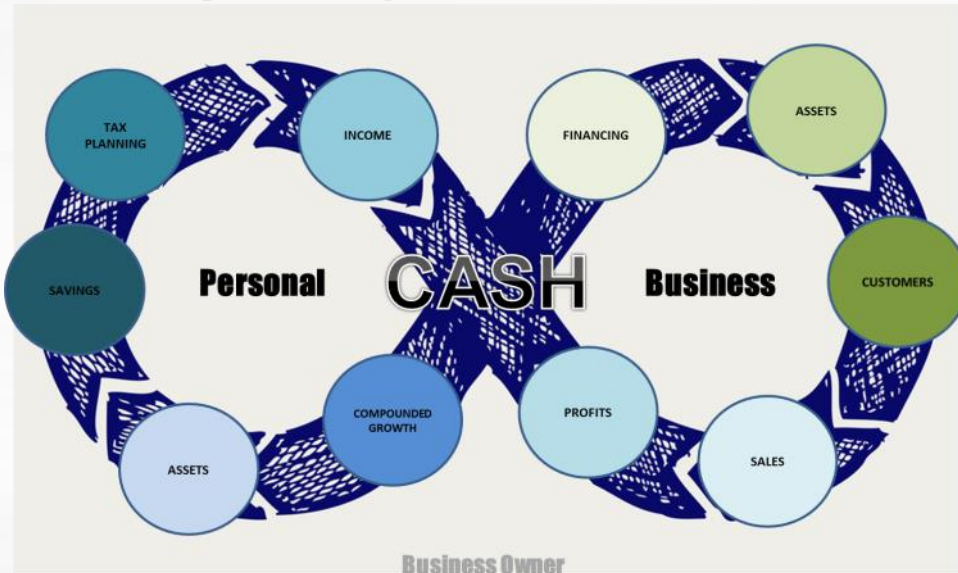
Then, for the owners to get the money out of the C Corporation the company has to pay a dividend to the owner, personally. The owner pays taxes on the dividend as well.



Long-Term Capital Gains	Single Taxpayers	Married Filing Jointly	Head of Household	Married Filing Separately
0%	Up to \$40,000	Up to \$80,000	Up to \$53,600	Up to \$40,000
15%	\$40,001-\$441,450	\$80,001-\$496,600	\$56,601-\$469,050	\$40,001-\$248,300
20%	Over \$441,451	Over \$496,601	Over \$469,051	Over \$248,301

Personally, if they were in the 15% long term capital gain tax bracket they would pay \$2.50 in taxes personally on the dividend. (\$16*15%). The total taxes paid on both sources of income would then be \$6.50 (\$2.5 + \$4). The Effective Tax Rate would then be $6.5/20 = 32.5\%$ if they were in the 15% Long Term Capital Gain Tax Bracket.

Taking Money Out of the Business



Notes

Notes
Audit Trail

Articles to Reference for Additional Information

IRS Red Flags
W-2 Employees or 1099 Contractors
Quarterly Estimated Taxes



Simple IRA Tax Savings Vehicle

		<u>No Simple Plan</u>	
Gross Earnings	\$50,000	Gross Earnings	\$50,000
Simple IRA Contribution	<u>-5,400</u>	Simple IRA Contribution	<u></u>
Taxable Earnings	44,600	Taxable Earnings	50,000
Less Federal and State Taxes @ 20%	<u>8,920</u>	Less Federal and State Taxes @20%	<u>10,000</u>
Net Pay	35,680	Net Pay	40,000
Add back Simple Contribution			
	<u>5,400</u>		
Net Pay and Savings	\$41,080	Net Pay	\$40,000
Taxes Saved	\$1,080		
Taxes Saved over 10 years	\$10,800		

Growth of Your Investment Compounded Over 10 Years

		\$5,400		
Total Yearly Contribution		\$5,400		
% Compounded over 10 years		8%		
	<u>Contribution</u>	<u>Total</u>	<u>Growth</u>	
Year 1	\$5,400	\$5,400		
Year 2	\$5,400	\$11,232	\$432	
Year 3	\$5,400	\$17,531	\$1,331	
Year 4	\$5,400	\$24,333	\$2,733	
Year 5	\$5,400	\$31,680	\$4,680	
Year 6	\$5,400	\$39,614	\$7,214	
Year 7	\$5,400	\$48,183	\$10,383	
Year 8	\$5,400	\$57,438	\$14,238	
Year 9	\$5,400	\$67,433	\$18,833	
Year 10	\$5,400	\$78,227.44	\$24,227	
Totals	\$54,000	\$78,227	\$24,227	
Rate of Return			44.87%	

HSA Tax Savings and Health Savings Plan

What is an HSA?

- Individual savings account established to pay for out-of-pocket medical costs
- Works with your health plan to help you plan, save and pay for medical expenses
- The funding can come from employee and/or employer contributions costs

Benefits of an HSA

- The money is put in pre-taxed
- Your savings grow tax-free
- Payments made from your HSA for qualified medical expenses are not taxable
- The money is always yours
- No “use it or lose it” rule
- Money is portable and stays with you, even in job changes in medical coverage, etc.

No HSA

Gross Earnings	\$50,000
HSA Contribution	0
Taxable Earnings	50,000
Less Federal and State Taxes @ 20%	-10,00
Earning after Federal and State Taxes	\$40,000

HSA Self

Gross Earnings	\$50,000
HSA Contribution	-3,350
Taxable Earnings	46,650
Less Federal and State Taxes @ 25%	-9,330
Earning after Federal and State Taxes	\$37,320
Taxes Saved	\$670
Taxes Saved over 10 years	\$6,700

HSA Family

Gross Earnings	\$50,000
HSA Contribution	-6,650
Taxable Earnings	43,350
Less Federal and State Taxes @ 20%	-8,670
Earning after Federal and State Taxes	\$34,680
Taxes Saved	\$1,330
Taxes Saved over 10 years	\$13,330

Participation in a HSA is subject to certain eligibility requirements the tax payer must meet to qualify.

HSA Tax Savings and Health Savings Plan

Eligibility Requirements:

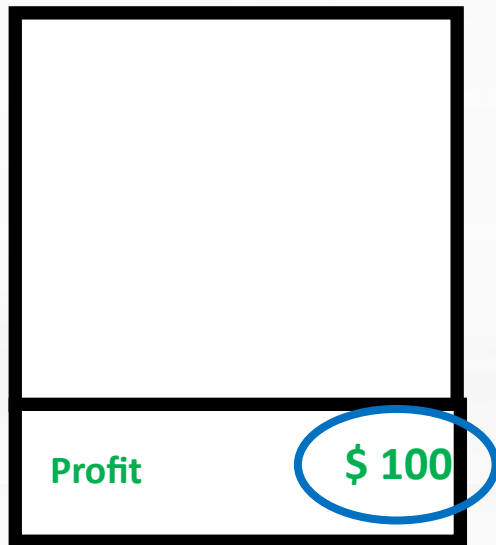
- In order to open and contribute to an HSA you must have an HSA eligible high deductible health plan. A high deductible is currently classified as \$1,200 for individual coverage and \$2,400 for family coverage. Annual, out of pocket costs cannot exceed \$5,950 for individual coverage and \$11,900 for family coverage.
- You cannot be covered by another health insurance plan that is not an HSA eligible high deductible plan (i.e.: spouse/partner's plan)
- You are not enrolled in Medicare
- You have not received VA benefits in the past three months
- You are not eligible to be claimed as a dependent on another's tax return
- You are not covered under a flexible spending account (FSA) full medical coverage.
- A Sole-proprietor, LLC member, more than 2% shareholder of a Sub-S, cannot participate in the HSA Plan. They can pay through distributions and report this on their personal tax return.

Consult with your accountant to determine your eligibility.



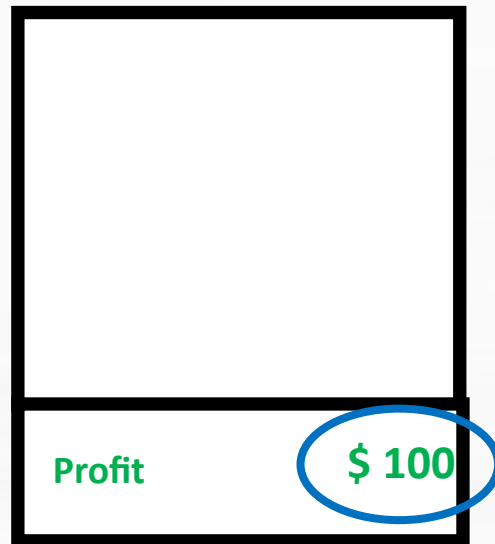
Spending Money to Save Money?

You spent an extra \$20 on unnecessary expenses just to save on taxes



Unnecessary Expenses	-20
Adjusted Profit	80
Taxes Owed: 25%	- 20
Net Take Home	\$ 60

You *didn't* spend an extra \$20 on unnecessary expenses just to save on taxes



Taxes Owed: 25%	-25
Net Take Home	\$ 75

The bottom line is: Don't spend unnecessary money to save a little bit in taxes. In this case spending \$20 to save \$5 dollars. Meaning, you spent \$1 for every 25 cents in taxes you saved, leaving you with 75 cents less in your pocket for every dollar spent.

Unless, what you're buying is something your business actually needs.



Notes

Inventory Measurement

Don't mess with the dials

