1st Chicago Accounting, Inc.

ACCOUNTANTS & BUSINESS ADVISORS

www.1stchicagoaccounting.com

Orland Park Office:
17646 Crestview Ct,
Orland Park, IL 60467
Tel: 708-428-4980 Fax: 708-590-0782

Downtown Chicago Office:
564 W Randolph 2nd Fl
Chicago, IL 60661
Tel: 312-887-1040 Fax: 708-590-0782

6 Tax Strategies Your CPA Most Likely Is Missing!

1 .Home Office Deduction:

If your office space is located in your house, you can deduct your bills for utilities, homeowners' insurance, homeowners association fees, security, and general repairs and maintenance. Mortgage interest and property taxes are deductible expenses if you qualify for home office deductions. You can deduct the percentage of the square footage of your office divided by the total square footage of your house.

2. Income Shifting to Children:

Sole-proprietors and spousal partnerships can pay children up to $12,000 without incurring any tax neither income nor payroll for legitimate services rendered to the business based on a market rate of pay. S and C corporations and non-spousal partnerships can also take advantage of this strategy; however they are not exempt from payroll taxes, social security and Medicare. The business can take the deduction for the pay and on the child's tax return. If it is less than the standard deduction, thereby reducing taxable income to zero.

3. Health Care Strategies:

2% or greater S-Corp shareholders can either be reimbursed for health insurance premiums or the S-Corp can directly pay health insurance premiums. Under either method, the S-Corp can deduct the cost. The amount paid for health premium must be included in W-2 earnings for the shareholder, exempt from FICA. Shareholder then deducts the premiums on 1040 as self-employed health insurance deduction. Partners in a partnership may also elect the same treatment for insurance premiums; however premiums must be included as Guaranteed Payments since partners should not be paid salary or wages from a partnership they own. Sole-proprietors can pay for and deduct insurance premiums on their 1040 as self-employed health insurance deduction.

4. Medical Reimbursement Plan:

There are multiple medical reimbursement plan strategies available to small businesses. They range in their ability to create tax savings. Each Medical Plan has different rules and you MUST follow them in order to qualify for the rules:

IRC Section 125 - Pre-tax deduction that is still the BEST way to deduct employee paid Group Health Insurance from a paycheck. It also allows for Group Term Life plans, FSA's (Flexible Spending Accounts), and elective defined contribution plans.

IRC Section 105 Plan (HRA) - Normally done with a Schedule C or SMLLC. It can be done with a Family Management Company. Viable if: a) business employs at least one employee (can be a spouse), b) are over 25, and c) reasonable compensation is paid (benefits apply to compensation). The following expenses qualify: premiums paid from spouse W-2 (other job), Long Term Care Ins, any medical expense on Form 1040, or Special Needs Child Expenses.

HSA - Medical savings account for taxpayers that have a high deductible. This account can grow tax deferred, similar to an IRA. Contributions are tax deductible and qualified distributions are tax free. Unlike an FSA, an HSA does not go to zero at the end of each year and unused contributions can be continually rolled over to help fund retirement.

QSEHRA - Qualified Small Employer Health Reimbursement Account - Company funded account that allows for reimbursement of medical expense if health insurance is not offered by the employer. This reimbursement can be considered as part of the employee's compensation package. Reimbursements are flexible and have a max contribution amount. The benefit is shown on Form W-2 in box 12, code FF.

IRC Section 401(h) - A retirement plan with a medical twist. The account is attached to a Cash Balance Plan (defined benefit plan) that is offered by the employer. It is funded with pre-tax dollars, grows tax deferred, allows for tax free qualified withdrawals and also allows for tax bracket shifting opportunities.

5. Home Office Administration:

Business owners who have a business location outside of their home, but also maintain a home administrative office for running the business can claim the home office as their primary office. As a result, all mileage for business purposes from the home office is deductible, including trips to office(s) outside of the home.

6. Augusta Rule:

he IRS allows a business owner to rent their primary residence or a vacation home to their business for up to 14 non-consecutive days each year. The residence can be located anywhere in the United States and the income is excluded from taxable income for the residence owner / business owner. The rental is established with a lease agreement between the business and residence owner, with pricing supported by researching and documenting comparable space for a similar event.

Get a 30 minute tax assessment for Free! Our typical new client saves $34,377! Results Vary.

Bradford R. Filmanowicz, CPA MBA EA
www.1stchicagoaccounting.com
708-428-4980