

Six Tax Tips for 2008

Published January 03, 2008

It may be too late to reduce your 2007 tax burden, but the time is ripe for affecting change in the New Year. Consider these expert tips in order to keep more of your hard-earned cash come April 2009.

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It's official: 2007 has finally given way to 2008. In just a few short months, on April 15, your 2007 taxes are due. And even if you file for an extension—giving yourself until Oct. 15 to file your returns—the time has passed for making a significant impact on your 2007 tax burden. Luckily, 2008 has just started, making it the perfect time to employ tax-saving strategies for the coming 12 months.



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In pursuit of such strategies, the ProNet Small Business Resource Center has consulted a team of six tax professionals, who offered us their very favorite tax tips. Consider them closely as you work with your accountant to make your own New Year's tax resolutions.

1. Employ Your Children

While they're an income drain, according to most parents, kids are actually an income opportunity, says CPA John F. Pearson of Norwalk, Conn.-based [Tax and Educational Strategies](#). He suggests putting your children on your payroll as employees in 2008 in order to reward them—and yourself—for their help at the office.

"Simply direct wages for legitimate work done by the child," Pearson says. "The child is not taxed on the first \$5,450 of earned income because it's sheltered by the standard deduction. If the parent is self-employed or an LLC, the child pays no Social Security taxes as long as they are under 18."

When you use your kids' earnings to pay for their activities, such as sports training, music lessons or tutoring sessions, the result is that a portion of their education becomes, essentially, tax deductible. "If you combine this idea with other concepts," Pearson adds, "like gifting appreciated assets to your child for them to sell to pay for education expenses, or gifting them business property and leasing it back from them, you could find the 'tax scholarship' you can give them will be quite substantial."

2. Pay Your Bills

If you're not making quarterly tax payments, you should be, according to self-proclaimed "Tax Lady" Roni Deutch, founder and president of North Highlands, Calif.-based [Roni Deutch Tax Centers](#), a nationwide tax franchise. That's because when you pay just once a year, in April, you risk increasing your tax burden with hefty fines and fees; paying early and often in 2008 can keep your annual tax bill in check.

"The quarterly due dates are April 15, June 15, Sept. 15 and Jan. 15, for the last quarter of the year," Deutch says. "Taxpayers are not required by law to make these payments; however, there are

substantial underpayment penalties if they wait until the end of the year."

Keep in mind that your minimum quarterly payment should be 25 percent of your net profit, according to Deutch. That covers you for self-employment tax, which is roughly 15 percent, and the minimum income tax rate, which is 10 percent.

3. Keep Your Eye on Deductions

Everyone loves deductions. Too many taxpayers, however, neglect to consider them when they're making purchase decisions, according to David R. Levi, director of [CBIZ Accounting, Tax & Advisory Services](#). If you're looking to reduce your tax burden in 2008, he suggests keeping Section 179 of the federal tax code top-of-mind when you're making major purchases this year.

"Section 179 is an outstanding tool that can help business owners reduce their federal—and in many cases, state—tax by enabling them to deduct in the year of purchase the full cost of certain assets that have a useful life of more than one year," Levi says. In other words, assets that once depreciated over a period of several years can now be deducted in one large chunk. Qualifying assets must be tangible personal property and can include everything from business vehicles and equipment to off-the-shelf software.

"As many business people look to get the maximum tax benefit out of every dollar that leaves the checkbook, the ability to deduct in one year the purchase of an asset that will last several years has obvious benefits," Levi continues. "In addition to saving income tax, for those operating their business as sole proprietors, partnerships and limited liability companies, the Section 179 deduction also reduces income subject to self-employment taxes. For some, their self-employment tax burden can be greater than that of their income tax, so the 'double benefit' of the Section 179 deduction can really reduce the after-tax cost of investing in a given asset for their business."

To take full advantage of Section 179, keep major purchases this year below \$500,000; if your purchases are less than that, the first \$125,000 can be deducted in full simply by listing them on your tax return.

4. Get Organized

The most obvious tax-saving strategy—keeping thorough and accurate records—is often the most overlooked, according to CPA Sally Herigstad, author of [Help! I Can't Pay My Bills](#). She advocates reducing your tax burden in 2008 by simply paying better attention to it.

"Most tax deductions aren't lost because we didn't know which expenses were deductible," she says. "Most deductions are lost by lack of organization. We lose receipts for parking and tolls; we forget to write down business mileage; we can't remember if that trip to the bookstore in July was business or personal. The best way to save on taxes in 2008 is to be better organized."

The key to good organization, Herigstad continues, is having a strong system. To make yours more effective, she suggests using the same accounting software as your tax advisor; paying for business expenses with a separate, business-only credit card and bank account; and categorizing expenses and other items throughout the year.

Finally, Herigstad suggests, use the "one-hand" rule. "Have places for tax-related documents and business receipts that are so handy you can file these important papers with one hand," she says. "You'll never be tempted to set them on the counter with the junk mail. When it's time to go to the accountant, you're all set."

5. Get New Health Insurance

Everyone needs health insurance. So if you've got it, wonders Enrolled Agent Karla K. Dennis, CEO of Cypress, Calif.-based [Cohesive](#), why not turn it into a tax benefit?

"If you are a sole proprietor, only your health insurance premiums are fully deductible," she says. "But if you make yourself an employee of your business, not only can you deduct health insurance for yourself, but you can deduct health insurance premiums for your family, as well as structure an employer-sponsored plan where you can fully deduct all the costs related to your health care. You can deduct co-payments, deductibles and prescriptions."

In order to transition from your current plan to a fully-deductible plan—either a self-insured medical reimbursement plan or a group plan—you must become an "employee" of your company and complete the proper paperwork with your insurance provider. Another option, if you like being a sole proprietor, is to establish a health savings account (HSA), which is an untaxed private bank account that's used to pay exclusively for medical expenses.

6. Save for Retirement

If you don't already have one, a retirement plan can put money in your pocket—not only 30 years from now, when you retire, but this year, when you deduct contributions to your plan.

"Any business with excess cash flow should consider establishing a qualified retirement plan, such as a profit-sharing or traditional pension plan," suggests CPA Ryan L. Losi, executive vice president of Glen Allen, Va.-based [Piascik & Associates](#). "Establishing a retirement plan can serve as a win-win for both the business and its employees. The business is allowed a deduction against its earnings, which ultimately reduces its tax burden, and the employees benefit by having ownership in the retirement plan."

Both defined benefit plans—pensions—and defined contribution plans—including 401(k)s and IRAs—qualify for tax benefits. While pension plans provide the greatest deduction for a business, according to Losi, defined contribution plans tend to be more feasible for the typical small business owner. Regardless of which plan you choose, consider your options carefully and make the maximum tax-deductible contribution as allowed by the IRS.

For more information on small business taxes, in 2007, 2008 and beyond, visit the IRS' [Small Business and Self-Employed One-Stop Resource](#).

Links referenced within this article

Tax and Educational Strategies

<http://www.taxscholarship.net>

Roni Deutch Tax Centers

<http://www.rdtc.com/>

CBIZ Accounting, Tax & Advisory Services

<http://www.cbiz.com/page.asp?pid=3008>

Help! I Can't Pay My Bills

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