



The essential business tips for tax deductions

Taxes are not the most glamorous part of owning a business, but they're important. You should understand the basics about how your business is taxed even if you hire a professional accountant. Get started with these essential tips for businesses regarding tax deductions.

Figuring out the type of business you operate

Most businesses fall into one of three categories:

- Limited Liability Corporation (LLC), which is the most common structure and offers the greatest flexibility on how your business is taxed and run
- S-Corporation, which is the structure used when wages are paid to the owner and employees and those wages are taxed as earned income
- Sole Proprietorship, which is the simplest structure, where you pay taxes on all earnings for your business

Business tax deductions

Businesses are able to claim tax deductions for a wide variety of expenses, particularly expenses incurred to produce additional income. Potential business tax deductions include:

- Home office (This comes with a choice of a regular or simplified deduction method.)
- One-time deductions for equipment vs. depreciation of equipment, such as furniture and computers
- Mileage
- Hotels and travel (air, train, auto) are 100% deductible; meals are 50% deductible
- Depreciation of property

- Bad debt might be deductible. Bad debt refers to a client or customer defaulting on a payment to your business.
- Goods: If your business sells goods, you can deduct the cost of goods that you sell but aren't paid for. (Note that no deduction is allowed for time spent providing services to a client or customer who doesn't pay.)

Taking advantage of tax credits

Unlike deductions, which reduce the amount of business income that is taxable, credits lower your tax. Many tax credits are tied to specific industries or types of businesses.

One of the most significant tax credits for small-business owners is the Small Business Health Care Tax Credit, available for employers that:

- Have fewer than 25 full-time equivalent employees
- Pay average wages of less than \$51,600 a year per full-time equivalent
- Pay at least half of employee health insurance premiums

Also, there have been some new employment tax credits introduced in the last few years related to the COVID-19 pandemic. You may want to talk to your tax preparer about whether any of these apply to your situation.

Keep in mind that tax credits, as with other tax policies, might change.

Estimating taxes

As a business owner, your tax obligation is to pay taxes as you earn income. For that reason, if taxes aren't being withheld from salaries or other payments, you need to pay estimated tax payments each quarter of the calendar year.

Figuring out what you owe each quarter requires looking at your expected adjusted gross income, taxable income, taxes, deductions and credits for the year. Each business and every situation is unique, so it's important to consult a tax advisor for help in calculating the amount.

Paying state and local taxes

In addition to federal taxes, businesses need to pay state and local taxes, including income and employment taxes. Look up your state's business tax requirements.

Hiring a tax professional

It's beneficial to hire an accountant, even if you feel your business is not very complicated. Paying taxes, identifying deductions and keeping up to date with current business tax law are serious responsibilities, and a tax professional can be a tremendous help.