7 Tax Strategies

Your CPA (*and you*) Are Missing Out On

Presented by

ADVANCED ACCOUNTANT

Start Saving On Taxes, Today!

Thank you for downloading our 7 Tax Strategies E-book.

For us, taxes are not something you just have to deal with once per year. Taxes are involved when you:

- Sell something you own
- Purchase something
- Hire your next employee
- Start a company
- Close down a company
- Send a gift to relatives
- Decide to donate to charity
- Invest in retirement
- And on and on…

Unfortunately, the IRS has not made it easy for you to identify tax savings opportunities when key major life events happen or when financial decisions need to occur.

That's where we come in. My name is Laurie Chen, CPA, MBA, and I'm the Founder and CEO at Advanced Accountant. We specialize in helping our clients proactively plan for their taxes and get ahead of the tax bill with key strategies necessary to implement.

In this e-book, we have provided you with 7 core strategies that most, if not all my clients are utilizing day in and day out to save money on taxes.

After you dig into the e-book, if you have any questions or would like some help on how a specific strategy can apply to your situation, we have setup a free consultation with one of our team experts to help you navigate through the complex world of taxes.

Call our office at 832-860-0558 to schedule your FREE tax consultation today.

Sincerely,

Laurie Chen, CPA, MBA

P.S. If you got some value from this e-book, feel free to shoot me an email at laurie@advancedaccountant.com. Would love to hear from you!

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Tax Strategy #1

Strategy: Home Office

Overview:

To qualify for a home office deduction, you must use part of your home in one or more of the following ways:

- Exclusively and regularly as your principal place of business
- Exclusively and regularly to meet with clients, patients or customers in the normal course of business
- On a regular basis for certain storage use
- As a daycare facility

"Exclusively" means the area can only be used for your trade or business. It does not have to be separated by any kind of permanent partition. "Regularly" means you use the space more often than occasionally or incidentally.

To determine what qualifies as a "principal place of business" for the work from home tax deduction, consider the time spent and relative importance of the activities performed at each place where you conduct business.

A home office qualifies as a principal place of business if:

- It is used exclusively and regularly for the administrative or management activities of your trade or business.
- There is no other fixed location where you conduct a substantial portion of those activities.

A separate structure not attached to your home may qualify for the work from home tax deduction if it is used in connection with your trade or business.

Requirements:

- The home office is the principal place of business for a Schedule C company.
- If the business is not a Schedule C, these numbers can be used as part of an accountable plan.

Next Steps:

- Work with our team at Advanced Accountant to accurately design, develop and implement this strategy for your 2025 taxes.

Sources

Internal Revenue Code Sections and related regulations includes IRC Section 121, including 121(d)(6); IRC Section 1(h)(1)(E), Reg. Section 1.62-2(d)(1), Reg. Sections 1.121-1(e)(1) and 1.121-1(e)(4), Rev. Proc. 2005-14, IRS Publication 587: Business Use of Your Home, IRS Tax-Tip 2020-98: Here's what taxpayers need to know about the home office deduction.

Tax Strategy #2

Strategy: Hiring Your Child

Overview:

If you're a parent who owns your own business, you have an opportunity to begin the wealth-transfer process and leverage a tax deduction for hiring your children as employees. If your business is a sole proprietorship or a spousal partnership, the hiring children tax strategy offers a few benefits to take advantage of:

- Payments to your children who are under 18 are not subject to social security and Medicare taxes.
- Payments to your children who are under 21 are not subject to Federal Unemployment Tax Act (FUTA) taxes.

All payments are subject to income tax withholding, regardless of the child's age or the type of business entity. State tax and withholding rules may apply.

Children older than 8 are considered able to work in the business and therefore take the standard deduction amount for their efforts. Children 7 years and younger are not considered able to work.

Note: Wages paid to your children will be subject to social security, Medicare and FUTA taxes if your business is organized as a corporation (either subchapter S or C) or a partnership that includes individuals in addition to the two spouses.

Requirements:

- Wages must be based on a market rate of pay and be paid in exchange for legitimate services rendered to the business.
- The wages paid to the children constitute a legitimate deduction for the business.

Next Steps:

- Work with our team at Advanced Accountant to accurately design, develop and implement this strategy for your 2025 taxes.

Sources

Internal Revenue Code sections and related regulations include RC Section 151(d)(5) 2018, IRC Section 63(c)(7) 2018, Rev. Proc. 2016-55, IRC Section 3121(b)(3)(A), Reg. Section 31.3121(b)(3)-1, and IRC Section 3306(c)(5).

Tax Strategy #3

Strategy: Employee Achievement Award

Overview:

In general, awards given by employers to employees, whether paid in cash or property, are deductible to the employer. In most cases, the value of the award will be taxable income to the employee, but certain gifts of tangible personal property can be excluded from their income.

Tangible personal property refers to items that can be physically moved, such as computers, cell phones, furniture or office equipment. If a gift of tangible personal property is given to an employee as part of the company's employee award program, it may qualify for exclusion from their income.

Individual awards valued at up to $400 may qualify for the income exclusion. In the case of employees who receive multiple awards, the maximum total value that can be excluded in a year is $1,600. However, the average cost of all awards must be at or below $400 per employee to qualify. Owner-employees of S corporations do not qualify for the exclusion.

Employees can still qualify for the exclusion if they choose their award. Awards of cash, gift cards, vacations, meals, lodging or tickets to events do not qualify for the exclusion.

Requirements:

- The award must adhere to the written plan document that outlines the qualifying rules and requirements.
- All employees must be eligible (except for S corporation owner-employees).
- Awards must be tangible personal property, not cash or cash equivalents.
- Awards must not exceed an average of $400 per employee per taxable year.

Next Steps:

- Work with our team at Advanced Accountant to accurately design, develop and implement this strategy for your 2025 taxes.

Sources

Internal Revenue Code sections and related regulations include 26 USC § 274(j)(3)(B)(i) and other resources IRS Publication 15-B: Employer's Guide to Fringe Benefits and IRS Publication 535: Business Expenses (Chapter 2)

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Tax Strategy #4

Strategy: Accountable Plan

Overview:

An accountable plan allows employees, including owner-employees, to be reimbursed for expenses paid out of pocket. The expenses become deductions to the business, and the employee or owner-employee can be reimbursed, creating non-taxable cash flow to them. Without an accountable plan, the payments to the employee or owner-employee could be considered additional wages by the IRS.

Accountable plans do not have to be in writing, but a written version of the plan may be needed to prove that it meets IRS requirements. A written expense reimbursement policy should outline:

- The required time period for submitting requests.
- The process for submitting requests, including documentation to substantiate amounts.
- The process for returning excess reimbursements.
- The types of expenses that are reimbursable.
- The maximum amount that can be reimbursed through this process (if any).
- Preferred low-cost suppliers (if any exist).

If you have a business that is not a Schedule C, you can use an accountable plan to reimburse yourself for the business use of your home, similar to the home office deduction for sole proprietors.

Requirements:

- The expenses must have a business connection.
- Employees must adequately document the expenses and report them to the employer within a reasonable time.
- Employees must return any excess reimbursements to the employer within a reasonable time.

Next Steps:

- Work with our team at Advanced Accountant to accurately design, develop and implement this strategy for your 2025 taxes.

Sources

Internal Revenue Code sections and related regulations include 26 USC § 274(j)(3)(B)(i) and other resources IRS Publication 15-B: Employer's Guide to Fringe Benefits and IRS Publication 535: Business Expenses (Chapter 2)

Tax Strategy #5

Strategy: 1031 Exchange

Overview:

The sale of real estate may lead to a significant tax bill, especially if the asset has appreciated greatly or if it has had significant depreciation taken against it.

A 1031 exchange allows you to avoid paying those capital gains taxes when you sell an investment property and reinvest the proceeds from the sale within certain time limits in a property or properties of like kind and equal or greater value.

There are very specific rules that must be followed for a 1031 exchange, including the time frame for when the transaction takes place.

The transaction is the combination of a sale of the original property combined with the acquisition of a new, similar property. However, the transfer of funds and the acquisition must be conducted through a qualified intermediary (the person or institution who holds the funds from the sale of the property and uses them to acquire the new replacement property) for the transactions to qualify under Section 1031.

Once the sale is made, the taxpayer then has 45 days to identify new property and 180 days to execute the transaction through the intermediary.

Tax can be triggered if the seller receives cash or their debt is reduced as a result of the exchange.

Requirements:

- The sale and acquisition must be conducted through a qualified intermediary.
- The property must be an investment property.
- The transaction must take place within the required period of time (45 days for new property and 180 days to execute the transaction).

Next Steps:

- Work with our team at Advanced Accountant to accurately design, develop and implement this strategy for your 2025 taxes.

Sources

Internal Revenue Code sections and related regulations include Reg. Section 1.1031, Private Letter Ruling 8118023, PLR 200842019, IRC Section 453(f)(6), Revenue Procedure 2000-37

Tax Strategy #6

Strategy: Home Gain Exclusion

Overview:

Taxpayers can exclude up to $500,000 of capital gains from any gains on the sale of their primary residence if they meet specific requirements.

To qualify the seller must have lived in the home as their primary residence for at least two of the past five years at the time of sale. If the seller is considered active duty military, the time is extended to two out of the previous ten years at the time of the sale.

The amount that can be excluded depends on the seller's filing status. Sellers filing as married filing jointly can exclude up to $500,000 of the gain.

Sellers of any other filing status can exclude up to $250,000. Individuals who are married filing separately may each claim the $250,000 exclusion.

The exclusion is deducted from the gains created from the sale of the property. The gain is equal to the property's sale price, less the original purchase price for the property increased by any capital improvements added to the property during the seller’s ownership of the property (the adjusted basis of the property).

Requirements:

- Must be your primary residence - not allowed for vacation homes
- Must have lived in the house for at least two of the last five years (may be extended to two of the previous ten years if active duty military)
- Must not have used the strategy in the previous two years

Next Steps:

- Work with our team at Advanced Accountant to accurately design, develop and implement this strategy for your 2025 taxes.

Sources

Internal Revenue Code sections and related regulations include IRC Sec. 121.

Tax Strategy #7

Strategy: Augusta Strategy

Overview:

Business owners can rent out their primary residence or a vacation home to their business for up to 14 days each year. The home can be located anywhere in the United States, and the income from the rental is excluded from the owner's taxable income.

This strategy was originally created to protect residents of Augusta, Georgia, who rent out their homes to attendees of the annual Masters Golf Tournament. This is also sometimes referred to as the Masters Rule.

There are a couple of things to keep in mind when considering this strategy:

- The home must not be considered a full-time rental property.
- If you rent your home for more than 14 days, you will have to report all the income and will not receive the tax benefit.

You can establish the rental with a lease agreement between the business and residence owner. Rental prices vary greatly across the country, so it is important to document local pricing standards.

You can use your home for a variety of business purposes, including annual or quarterly meetings, planning sessions and even company parties. You can qualify for this strategy even if you are attending the meetings with just your spouse or by yourself.

Requirements:

- The daily rental rate does not include the cost of business meals, only the cost to rent the business space.
- There must be a written lease agreement noting the transaction and supporting documentation for the rental price.
- The business entity structure must be an S corporation, C corporation or partnership. The entity cannot be a Schedule C, unless the entity is a Single Member LLC business.

Next Steps:

- Work with our team at Advanced Accountant to accurately design, develop and implement this strategy for your 2025 taxes.

Sources

Internal Revenue Code sections and related regulations include PLR 8104117; IRC Section 280A; IRC Section 274(a)(1)(B);IRC Section 267(a)(2); IRC Section 262; IRC Section 162; Gregory v Helvering, 293 U.S. 465 (1935); Frank Lyon Co. v United States, 435 U.S. 561, 573 (1978); Rev. Rul. 76-287; Leslie A. Roy v Commr., TC Memo 1998-125 PLR 8104117

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