



TAX SAVING

STRATEGIES FOR SMALL BUSINESS OWNERS

A Practical Guide to
Maximizing Profits



Welcome to our Tax Saving Strategies Guide designed specifically for small business owners! In this guide, you'll find essential strategies to save on taxes, increase profitability, and better manage your finances in 2024. Whether you're just starting out or looking to optimize your current business structure, these tax-saving tips are designed to empower you to keep more of your hard-earned money.

#1 | OPTIMIZE YOUR W2 WITHHOLDINGS

Many small business owners overlook the importance of managing their W2 withholdings. By adjusting the amount you withhold from your salary, you can either increase your take-home pay or ensure that you don't overpay throughout the year.

STRATEGY:

- ◆ Review your W2 withholding on a quarterly basis, especially after major business changes
- ◆ Consider adjusting for upcoming tax liabilities or to avoid a big tax refund, which essentially is an interest-free loan to the IRS.



#2 | CORRECTLY CLASSIFY YOUR TAX ENTITY

The tax structure you choose for your business can have a significant impact on your tax bill. For small business owners, the correct classification—whether as a Sole Proprietorship, LLC, S-Corp, or C-Corp—determines your liability, how you pay yourself, and how much tax you owe.

STRATEGY:

- ◆ If your business is a sole proprietorship, consider converting to an S-Corporation for potential tax savings. As an S-Corp, you can pay yourself a reasonable salary and take the remaining profits as distributions, which may be taxed at a lower rate.
- ◆ Work with a tax professional to evaluate your tax entity options annually, particularly as your business grows.

#3 | DEFER INCOME USING TAX-DEFERRED VEHICLES

As a business owner, you have access to powerful tax-advantaged retirement savings options that can help reduce your taxable income while setting yourself up for future financial security. Tax-deferred accounts allow you to contribute pre-tax income, thus reducing your taxable income for the year.

STRATEGY:

- ◆ Solo 401(k): If you're a sole proprietor or operate a one-person LLC, you can contribute both as an employer and an employee. For 2024, you can contribute up to \$23,000 as an employee (or \$30,500 if you're over 50). Additionally, you can make employer contributions up to 25% of your net earnings, which could allow you to contribute up to \$66,000 (or \$73,500 if you're over 50).
- ◆ SEP IRA: If you're self-employed or have a small team, a SEP IRA allows for contributions up to 25% of your net earnings, or \$66,000 for 2024, whichever is less. It's a simpler and more flexible option than a Solo 401(k), especially if your income varies from year to year.
- ◆ SIMPLE IRA: Another option for business owners with employees, the SIMPLE IRA allows you to contribute up to \$15,500 (\$19,000 if over 50) in employee deferrals, and the employer can match contributions.



#4 | CONTRIBUTE TO SELF-EMPLOYED HEALTH PLANS

If you have high medical expenses or expect significant health cost in the future, consider Health Savings Accounts (HSAs) as they provide great tax benefits. You can contribute to your HAS on a pre tax basis, reducing your taxable income. The funds in the HAS grow tax free, and any interest is not taxed. When used for qualified medical expenses, withdrawals are tax-free.

STRATEGY:

- ◆ Maximize contributions to the HSA each year. For 2025 Self-only coverage \$3,850, Family coverage \$7,750.

#5 | TRACK BUSINESS EXPENSES AND MAXIMIZE DEDUCTIONS

One of the most impactful ways to reduce your tax liability is by carefully tracking and deducting business-related expenses. Unlike employees with W2 income, business owners can deduct expenses that are necessary and ordinary for running their business.

STRATEGY:

- ◆ **Deductible Expenses:** Common deductible expenses include:
 - ◇ Business-related travel (airfare, hotel, transportation)
 - ◇ Meals (50% of meals directly related to business activities)
 - ◇ Equipment and supplies (computers, printers, office furniture)
 - ◇ Business insurance premiums (liability, health insurance)
 - ◇ Software subscriptions and online tools
 - ◇ Marketing and advertising costs (website, paid ads)
- ◆ **Keep Detailed Records:** Properly documenting and categorizing these expenses is crucial to claiming them effectively. Use accounting software or an expense tracking app to help stay organized.



#6 | UTILIZE THE QUALIFIED BUSINESS INCOME DEDUCTION (QBI)

As a business owner of a pass-through entity (such as an LLC, S-Corp, or partnership), you may be eligible for the Qualified Business Income (QBI) deduction, which allows you to deduct up to 20% of your business's net income.

STRATEGY:

- ◆ The QBI deduction is available to owners of sole proprietorships, partnerships, S-Corporations, and LLCs, as long as they meet certain income thresholds. For 2024, the deduction applies if your taxable income is below \$364,200 for married couples filing jointly (\$182,100 for single filers).
- ◆ If your income exceeds these thresholds, your ability to claim the deduction may be limited, but there are strategies such as structuring your business or income splitting to potentially retain the full benefit.

#7 | DEDUCT HOME OFFICE EXPENSES

If you run your business from home, you may be eligible to claim a home office deduction, which can be a significant tax saver. This deduction is available even for self-employed individuals provided they use part of their home exclusively for business.

STRATEGY:

- ◆ **Simplified Method:** Deduct \$5 per square foot of your home office space, up to 300 square feet. This allows you to claim up to \$1,500 in deductions.
- ◆ **Regular Method:** Calculate actual expenses, including a portion of mortgage interest, utilities, insurance, and maintenance costs, based on the percentage of your home used for business.



#8 | TAKE ADVANTAGE OF DEPRECIATION DEDUCTIONS

When you purchase significant assets for your business (such as equipment, vehicles, or real estate), you may be able to depreciate the cost of these assets over time. Depreciation allows you to spread out the deduction over several years, reducing your taxable income.

STRATEGY:

- ◆ **Section 179 Deduction:** This provision allows you to deduct the full purchase price of qualifying assets (like machinery, office furniture, or computers) up to a limit of \$1,160,000 for 2024, provided you don't exceed a total investment of \$2.89 million.
- ◆ **Bonus Depreciation:** In addition to Section 179, bonus depreciation allows you to write off 100% of the cost of qualifying assets in the year they are purchased and put into service. This provision is set to phase out over time, but for 2024, it still offers substantial tax-saving opportunities.

#9 | SPLIT INCOME WITH FAMILY MEMBERS (INCOME SPLITTING)

If your spouse or children are involved in your business, income splitting can help reduce the overall family tax burden. By paying family members for work they perform for the business, you can allocate income to those in lower tax brackets.

STRATEGY:

- ◆ Pay reasonable wages to family members who actively work in your business. This strategy works particularly well if your children are of working age and can contribute to the business (such as filing, administrative tasks, or social media management).
- ◆ Keep in mind, these payments must be for actual work performed, and the wages must be reasonable for the work done.

#10 | CONSIDER A HEALTH REIMBURSEMENT ARRANGEMENT (HRA)

An HRA allows you to reimburse employees (or yourself, if you're self-employed) for qualified medical expenses on a tax-free basis. While this strategy is more commonly used by employers with staff, self-employed individuals can also take advantage of an individual HRA for medical and dental expenses.

STRATEGY:

- ◆ Establish an HRA for yourself and your family to reimburse medical expenses tax-free, which will reduce your overall taxable income.
- ◆ Work with a tax professional to structure an HRA that meets IRS requirements for maximum benefit.

CONCLUSION:

By implementing the strategies outlined above, you can significantly reduce your tax liability, increase your profitability, and put your business on a path to success. Tax planning is an ongoing process, so make sure to revisit your strategies regularly and consult with a qualified tax professional to ensure you are maximizing your savings.