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5 Ways to Cut Taxes, Simplify, and Save Money

1. Are you paying too much in taxes because of your choice in entity?

The majority of businesses in the US are sole proprietors (as of the year with the last U.S. Census statistics, 2008, about 72% of businesses operate as sole proprietors). Generally speaking, sole proprietorships pay the highest marginal tax rates which can range from 25% (including self-employment tax) to about 54% for individuals in the highest tax bracket (and this rate doesn't include state and local taxes). Hence, up to 54 cents of each additional dollar of profit would go to the federal government.

Key: *Make an appointment with a qualified tax advisor and re-assess if your choice of entity is the most advantageous for your situation.*

2. Are you paying unnecessary payroll taxes?

Employees can be one of the biggest assets of a small business but they can also be one of the biggest opportunities to reduce costs. For example, there are certain expenses like health insurance, that are deductible to the employer, but not deductible employee. This means that if you don't provide your employees with health insurance, some of your employees may be paying for these benefits out of pocket. Additionally, are you offering your employees opportunities to contribute to medical, retirement, or benefit plans? If you are not offering these opportunities, you could be paying unnecessary payroll taxes.

Key: *There are opportunities to motivate employees through benefits that are 100% deductible to the employer and non-taxable to the employee. Hence, not subject to taxes to either the employee or employer.*

3. Are you choosing the accounting method that best fits your company?

Most small businesses can record transactions when cash is exchanged, i.e. recognize income when cash is received and recognize expenses when cash is paid. Alternatively, business can choose an accrual method of accounting. Accrual accounting can recognize income and expenses without actually exchanging cash. Both the accrual method and the cash method of accounting are acceptable for tax purposes. However, each method will generally give you a different taxable income. A qualified Certified Public Accountant can help determine which method is more advantageous for your firm.

Key: *Selecting the correct accounting method can allow you to defer revenue and accelerate the recognition of expenses. This can reduce your taxable income.*

4. Is your accounting simple and incorporating best practices?

We have an internal adage at our firm, "cheap accounting is expensive." What we mean by that is that the amount of money that you spend on your accounting function doesn't always correlate with the quality of the reporting. Assessing your accounting processes can help reduce the cost and improve the quality of your financial reporting. The average small business will eventually hire someone (either internally or externally) to assist in financial reporting. However, selecting the right balance between skill set, cost, and location is critical. For example, a full time in-house bookkeeper is generally about $30,000 per year. However, an outsourced accounting function will often provide better reporting for a lower cost. Further, adopting best practices can facilitate audits, reviews, and compilations (if necessary for your business).

- Better accounting doesn't necessarily mean you will spend more
- Efficiency is extremely important attribute of an accounting function
- In-house accounting staff generally lack the necessary skills to improve the efficiency of an accounting function
- "Renting" the skills from an outside provider can be cost-effective
    - By adopting best practices can improve efficiency (saving time and money)
    - Better information can result in lower cost audits, reviews, and compilations
    - Better information can help make better decisions
    - Incorporate perspectives like tax planning, job costing, and project management

Key: *Adopting the right type of accounting processes and service provider can save you both time and money.*

5. Are you saving for retirement?

Contributing to a retirement plan is the most effective way to defer taxes and save for retirement. First, you can take a deduction in the current year and by doing so, reduce taxable income in the current year. Second, the best part of this type of deduction is that the money is available to you at a future date, and finally, once retired, your tax rate tends to be lower.

Key: *Contributing to a retirement account is an effective strategy to defer taxes and save for retirement.*