

Tax Strategies Checklist for Business Owners

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As a business owner, you've got a lot on your plate, and navigating the complex world of tax planning can feel like an added burden.

We designed this tax planning checklist specifically with business owners like you in mind. Use this as a starting point for identifying key areas to maximize your savings and minimize liabilities*.

*Instrumental Wealth is an investment adviser, not an accounting or CPA firm. We recommend consulting a tax professional for specific tax-related advice. We work in coordination and conjunction with your CPA to evaluate these strategies.



Table of Contents

Phase 1: Foundational lax Planning Items		
Compensation Review and Design	4	
Qualified Plan Review and Funding Diagram for Optimizing Compensation Planning Diagram for Paying Your children	4 5 6	
Overall Savings Strategy Review	7	
Mega Backdoor ROTH Conversion	7	
Reviewing Your Benefits Package	8	
Health Savings Accounts (HSAs)	8	
Tax-Loss Harvesting	9	
Charitable Contributions	9	
Phase 2: Next Level Tax Planning Strategies	10	
IRS Section 280A (The Augusta Rule)	10	
Cost Segregation	10	
R&D Tax Credits	11	
Section 179 Accelerated Depreciation	11	
Qualified Opportunity Zones	12	



Phase 1: Foundational Tax Planning Items

Compensation Review and Design

	Work with your financial advisor, tax accountant/CPA, and your third party administrator (TPA) for your retirement plan to design the optimal compensation to pay yourself (see diagram on page 5)	
	Consider whether paying your children makes sense (see diagram on page 6) □ Determine if there is a business responsibility that could be taken on by your child(ren) □ Ensure proper process for documentation (hours worked & responsibilities) □ Consider funding Roth IRA for tax free growth □ Consider the option of whole life insurance	
Q	ualified Plan Review and Funding	
	Review current retirement plans for tax deduction opportunities and compliance Assess plan design limitations and opportunities to reward key employees Identify any funding opportunities requiring catch-up contributions Evaluate updated compliance issues or regulatory changes	
	Increase company match percentages as profits grow	
	Consider doing a Safe Harbor match or non elective employer contribution to potentially maximize the amount elective deferral owners and highly compensated employees (HCEs) can contribute. In addition, t will also allow for a higher profit share allocation.	
	Consider contributing to the annual profit sharing maximum based on proper balance and design to maximize what Owners and HCEs get versus other employees.	
	Consider adding a Cash Balance Plan to complement current offerings ☐ Determine if the business has the ability and desire to contribute more pre-tax for owners and key employees ☐ Consider if adding children to payroll can increase the amount they receive in profit-sharing contributions	
	Compare potential tax sayings and retirement benefits to administrative costs	

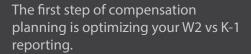


1st Step of Compensation Planning: Your Entity: Optimizing Your W2 vs K-1 Distribution **ABC Corp LLC** Let's say your annual Paying Yourself: income is \$500k, and you W2 or K-1 are filing as an individual. Whatever you report as W2, Whatever you report as K-1, you must pay federal income you are ONLY subject to W2 K-1 tax & SS/Medicare tax from federal income tax rate (not both employee & employer. additional 15.3%) Example: \$150k reported Example: \$350k reported You can only defer to For example, if you allocate Retirement plan retirement plan based on \$23k pre-tax, the remaining allocation \$127k is going to be taxable. your W2 number (NOT K-1). **Taxes Owed** Big question: How much should you defer? Taxes owed on \$127k of **Taxes Owed** income. Federal Income Tax Whatever is reported for **Employee Employer Portion** your W2, you get a taxable **Federal Income Tax** SS & Medicare SS & Medicare deduction for the employer share of taxes. Example: ~19.72% tax =\$69,020 tax before credits e.g., If my Federal Tax Rate is Example: \$127k at a ~19.72% Example: \$150k at 7.65% tax Example: \$150k at 7.65% tax 37% and I have to pay 15.3% to tax =\$25,044 tax before credits =\$11,475 tax before credits =\$11,475 tax before credits save 37%, I still net a tax saving In this example, the owner's of 22.3%. total liability would be \$69,020 In this example, the owner's total liability would be \$47,994 tax before credits for their W2 reporting of \$150k and pre-tax tax before credits for their K-1 retirement allocation of \$23k. reporting of \$350k.



For illustrative purposes only and subject to change.



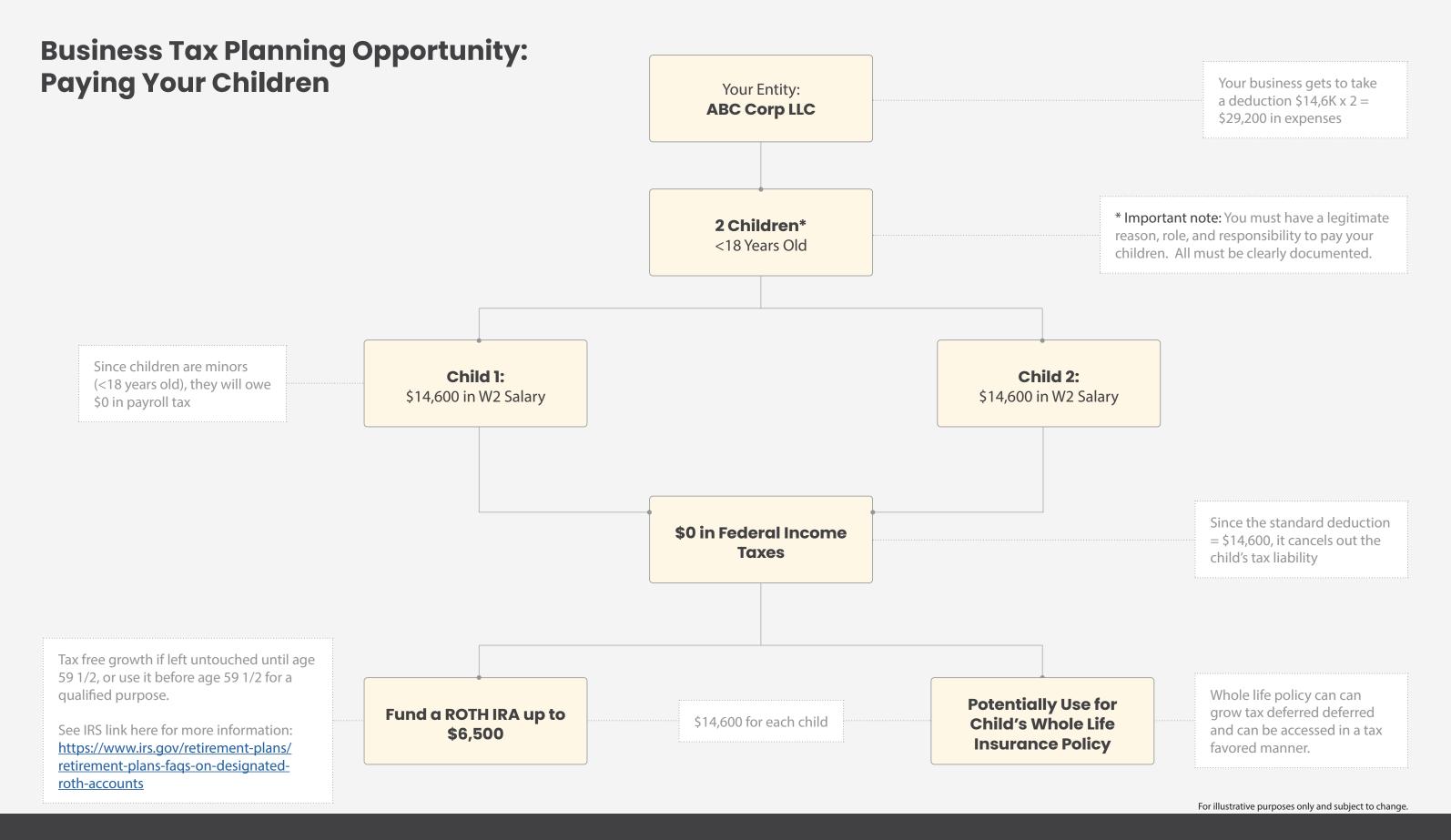




How much should you report for each so you can plan for retirement while minimizing your total tax liability?



Whatever you report as K-1, you don't





Overall Savings Strategy Review

☐ Analyze tax efficiency of current ways you are saving/investing			
		Determine if too much income is being generated in taxable accounts vs. tax-advantaged accounts Assess if adjustments like holding municipal bonds and non-dividend growth stocks in taxable accounts are prudent	
	Qu	antify and assess fees and expenses paid within accounts	
		Review account administration fees, trading commissions, expense ratios, and advisory fees Determine reasonability of fees and potentially negotiate reductions	
	Ор	timize asset location between taxable and non-taxable accounts	
		Prioritize holding corporate/taxable municipalities, high yield bonds, international holdings that can have foreign tax associated with them, and high turnover funds in tax-deferred accounts Consider placing tax-efficient investments like municipal bonds and low turnover equity funds in taxable accounts	
	Maximize contributions to tax-deductible accounts like HSAs, 401(k)s, and IRAs before saving in taxable accounts		
		Consider if a backdoor Roth IRA conversions are completed each year if eligible	
		Catch up on any deferred 401(k) contributions from previous years Maximize full HSA contribution limits before directing savings to taxable accounts	
		Maximize full 113A contribution limits before directing savings to taxable accounts	
M	e	ga Backdoor ROTH Conversion	
	Co	nfirm if 401(k) plan allows after-tax contributions and in-plan conversions	
	Make maximum \$22,500 pre-tax salary deferral 401(k) contribution for 2023 (\$30,000 if age 50+)		
	Co	ntribute after-tax dollars to 401(k) up to \$69,000 total limit for 2024 (\$73,500 if age 50+)	
		Ensure plan allows for separate accounting between pre-tax and after-tax amounts	
	Co	nvert after-tax portion to Roth 401(k) or Roth IRA shortly after each contribution	
		Be aware of pro rata rule if converting to Roth IRA with existing pre-tax IRA balances (the pro rata rule refers to a ratio determining what amount of the Roth conversion is taxable, calculated based on the percentage of after-tax dollars in Traditional IRAs, SEP IRAs, and SIMPLE IRAs)	
	De	termine optimal timing and frequency of after-tax contributions and conversions	
	Ass	sess tax implications and coordinate with other retirement savings strategies	



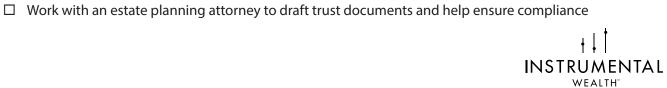
Reviewing Your Benefits Package

	Survey staff to determine which benefits are most valued for retention and recruitment
	Assess industry benchmarks on popular benefits to remain competitive
	Customize offerings with preferences and limits between employee tiers ☐ Consider offering executive health plans or additional PTO for key employees ☐ Restrict certain benefits like tuition assistance based on tenure or job level
	Analyze tax treatment of various benefit types ☐ Determine which benefits qualify for preferred tax deductibility (e.g., certain wellness programs) ☐ Assess which fringe benefits may be taxable to employees (e.g., gym discounts)
	Ensure compliance with annual limit thresholds and discrimination testing Review plans to potentially prevent favoring highly compensated employees excessively Conduct required testing aimed to prove compensation remains balanced by plan design
Н	ealth Savings Accounts (HSAs)
	Evaluate if your health plan is HSA-eligible ☐ Enroll in a high-deductible health plan (HDHP) that meets HSA requirements ☐ Ensure you have no other disqualifying health coverage (e.g.,non-HDHP)
	Contribute the annual IRS maximum to your HSA ☐ For 2024, contribute up to \$4,150 for individual coverage or \$8,300 for family coverage ☐ If age 55+, make an additional \$1,000 catch-up contribution ☐ Adjust contributions via payroll deduction or direct deposits
	 Invest HSA balances once an emergency fund is set aside □ Maintain the maximum annual out of pocket in cash/money market □ Invest the remainder in a diversified portfolio aligned with your risk tolerance and goals □ See what options your custodial platform offers for allowing you to invest in a diversified portfolio (or talk to us to explore managed portfolio solutions)
	Maximize the tax benefits of your HSA ☐ Claim a potential tax deduction for contributions made outside of payroll (if applicable) ☐ Enjoy tax-deferred growth on invested HSA balances ☐ Take tax-free withdrawals for qualified medical expenses now or in retirement
	Let your HSA compound long-term to potentially supplement retirement healthcare costs ☐ Avoid tapping the HSA for non-medical expenses before age 65 to potentially minimize taxes and penalties ☐ After age 65, you can take withdrawals for any purpose without penalty (but with ordinary income tax) ☐ Aim to max out your HSA every year and invest it for growth to build a substantial medical nest egg
	Consider using account balance to pay for Medicare supplement and Long-Term Care tax free in your retirement



T	ax-Loss Harvesting
	Review your investment portfolio for potential tax-loss harvesting opportunities
	 □ Identify investments that have decreased in value below their cost basis □ Consider selling these investments to potentially generate capital losses □ Reinvest the proceeds in similar (but not substantially identical) investments to potentially maintain your asset allocation* Note: For larger client accounts, we often employ a <u>strategy called "direct indexing.</u>" You buy individual stocks and own them separately, allowing you to potentially harvest all of their losses when applicable and maintain overall upside.
	Use realized losses to potentially offset capital gains and ordinary income
	 □ Apply capital losses first against capital gains, then up to \$3,000 against ordinary income □ Carry forward unused losses to offset gains and income in future tax years □ Be aware of the wash sale rule, which disallows losses if you repurchase substantially identical securities within 30 days
	Incorporate tax-loss harvesting into your ongoing investment strategy
	☐ Monitor your portfolio regularly for potential loss harvesting opportunities, especially during market downturns
	 □ Coordinate with your financial advisor and tax professional to potentially optimize your harvesting strategy □ Consider the impact of tax-loss harvesting on your long-term investment goals and asset allocation
C	haritable Contributions
	Direct Contributions
	 □ Donate cash, checks, or appreciated assets to qualified charitable organizations □ Claim a deduction for the full amount or fair market value, subject to Adjusted Gross Income (AGI) limits: \$161k for single, \$240k for married in 2024 □ Consider bunching contributions into alternating years to potentially maximize tax benefits
	Donor Advised Funds (DAFs)
	 □ Consider establishing a DAF and make a large, tax-deductible contribution in one year □ Recommend grants from the DAF to desired charities over multiple years □ Contribute a variety of assets to your DAF, including cash and appreciated securities
	Private Foundations
	 □ Consider establishing a private foundation designed to formalize your family's philanthropic legacy □ Claim a tax deduction for contributions, subject to AGI limits and carry-forward rules □ Comply with private foundation rules, including annual distribution requirements and excise taxes
	Charitable Trusts
	☐ Consider a Charitable Remainder Trust (CRT) for potential income and tax benefits

☐ Explore a Charitable Lead Trust (CLT) for a different giving approach



Phase 2: Next Level Tax Planning Strategies

IRS Section 280A (The Augusta Rule)

		Understand the Augusta Rule, which allows homeowners to rent their primary residence to their own business for up to 14 days per year			
		Rent your home to your business for meetings, events, or other business activities Claim a tax deduction for the rental expense through your business Avoid reporting the rental income on your personal tax return, as long as the total rental days do not exceed 14 per year			
	En	sure that the rental arrangement is properly documented and substantiated			
		Create a written rental agreement between your business and yourself as the homeowner Maintain records of the dates, duration, and purpose of each business rental use Determine a fair market rental rate for your home based on comparable properties in your area			
	Ma	ximize the tax benefits of the Augusta Rule while staying within the 14-day limit			
		Utilize the full 14 days of tax-free rental income each year, if possible Schedule business meetings, retreats, or other events at your home to potentially take advantage of the deduction			
		Consider using the Augusta Rule in conjunction with other tax strategies, such as home office deductions or business travel expenses			
C	05	st Segregation			
	Со	nsider conducting a cost segregation study for your commercial real estate properties			
		Identify and reclassify eligible assets into shorter depreciation life categories, such as 5, 7, or 15 years Accelerate depreciation deductions and improve cash flow in the early years of property ownership Utilize the time value of money by claiming larger tax deductions upfront			
	Eng	gage a qualified cost segregation professional to perform the study			
		Ensure the provider has expertise in engineering, construction, and tax law Provide detailed property information, including construction documents, blueprints, and cost data Review the cost segregation report and reclassify assets accordingly on your tax return			



R&D Tax Credits

	Dete	ermine if your business engages in qualifying research and development activities
		Identify activities related to developing new or improved products, processes, or software Consider activities such as experimentation, testing, and iterative design Document the time, resources, and expenses associated with each R&D project
	Und	erstand the requirements and benefits of the R&D tax credit
		Claim a credit of up to 20% of qualified research expenses above a base amount Utilize the credit to potentially offset income tax liability or payroll taxes (for certain small businesses) Carry forward unused credits for up to 20 years
	Worl	k with a tax professional experienced in R&D tax credits to potentially maximize your benefit
		Gather and organize documentation supporting your R&D activities and expenses Calculate your potential credit based on your specific business circumstances File Form 6765 with your business tax return to potentially claim the credit
S	ect	tion 179 Accelerated Depreciation
	Iden	tify eligible property purchases for Section 179 expensing
		Include tangible personal property, such as equipment, machinery, and vehicles Consider certain improvements to non-residential real property, like roofs, HVAC, and fire protection systems Ensure the property is placed in service during the tax year and used more than 50% for business purposes
	Und	erstand the limits and phase-outs for Section 179 deductions
		Deduct up to \$1,160,000 of eligible property placed in service in 2023 (adjusted annually for inflation) Be aware of the phase-out threshold, which begins at \$2,890,000 of property placed in service in 2023 Claim bonus depreciation for expenses exceeding the Section 179 limit
	Opti	mize your tax planning with Section 179
		Plan the timing of your property purchases to potentially maximize deductions in high-income years Consider the impact of state-level conformity to Section 179 rules Consult with a tax professional to ensure proper reporting and compliance



Qualified Opportunity Zones

	Un	Understand the benefits of investing in Qualified Opportunity Zones (QOZs)		
		Defer capital gains tax by reinvesting gains into a Qualified Opportunity Fund (QOF) within 180 days Reduce the deferred gain by 10% after holding the QOF investment for 5 years, and by an additional 5% after 7 years Eliminate capital gains tax on the appreciation of the QOF investment if held for at least 10 years		
		ntify eligible capital gains for QOZ investments		
_		Consider gains from the sale of stocks, bonds, real estate, or other assets Be aware of the 180-day window to reinvest gains into a QOF Consult with a tax professional to ensure proper reporting and compliance		
	Eva	Research QOFs and their underlying projects, focusing on the quality of the management team and the investment strategy Assess the potential risks and returns of QOZ investments, considering factors such as location, asset class, and development timeline Determine how QOZ investments fit into your overall portfolio and long-term financial goals		
	Co	nsider QOZ funds vs direct investment		



With the busy demands of running your company and wearing so many hats, your career and family, you simply may not have the time to focus on your personal finances.

So you push it off. Or implement ad-hoc strategies from friends, and advice you see on social media.

Would you run your company this way?

Don't go it alone. Access your own financial team, like a CFO for your personal finances.

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