YOUR TAX BILL IS TOO HIGH:

STRATEGIES AND TIPS FOR REDUCING YOUR CORPORATE AND INDIVIDUAL TAX EXPENSE

Presented by: Gene Marks
MEET WITH YOUR ACCOUNTANT...NOW
6 THINGS TO KNOW ABOUT YOUR ACCOUNTANT

- Meet twice a year - April and September.

- Understand what "preparer" means.

- Don't be afraid to get a second opinion.

- Don't ignore estimated payments.

- The best CPAs respond promptly.

- The best CPAs are proactive.
SUMMARY OF ACTIONS

MEET WITH YOUR CPA NOW
POST-TAX REFORM

INDIVIDUAL RATES: 7 new brackets…until 2026
## 7 NEW INDIVIDUAL RATES

<table>
<thead>
<tr>
<th>Married/Jointly Income</th>
<th>Old Rate</th>
<th>New Rate</th>
</tr>
</thead>
<tbody>
<tr>
<td>$75,000</td>
<td>15%</td>
<td>12%</td>
</tr>
<tr>
<td>$100,000</td>
<td>25%</td>
<td>22%</td>
</tr>
<tr>
<td>$150,000</td>
<td>25%</td>
<td>22%</td>
</tr>
<tr>
<td>$200,000</td>
<td>28%</td>
<td>24%</td>
</tr>
<tr>
<td>$250,000</td>
<td>33%</td>
<td>24%</td>
</tr>
</tbody>
</table>
POST TAX REFORM

INDIVIDUAL RATES: 7 new brackets…until 2026

CORPORATE RATES: 2018 corporate tax reduced from 35% to 21%, overseas cash repatriation: 15.5% one time rate for cash assets.

SMALL BUSINESSES: 20% deduction on “pass-through” income.
TWO KEY THINGS TO KNOW ABOUT THE PASS THROUGH DEDUCTION

ARE YOU A “SERVICE” BUSINESS?
Health, law, accounting, actuarial science, performing arts, consulting, athletics, financial services, investing and investment management, trading.

YOUR 20 PERCENT DEDUCTION:
- Income less than $157,500(I)/315,00(M) and you’re not a service business
- Income greater than the above but must meet certain tests for employment

- NO DEDUCTION for service businesses with income over $207,000(I)/$415,000(M)
POST TAX REFORM

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CORPORATE RATES: 2018 corporate tax reduced from 35% to 21%, overseas cash repatriation: 15.5% one time rate for cash assets.

SMALL BUSINESSES: 20% deduction on “pass-through” income.

STANDARD DEDUCTION: raised to $12,100 individual, $24,200 married…no more personal exemption.

SURVIVING ITEMIZED DEDUCTIONS: include medical (over 7.5% of AGI used to be 10%), charitable, interest (up to $750K mortgages).

CHILDCARE CREDIT DOUBLED: $2,000 per child for earners up to $200K/$400K…and partially refundable.

SALT (SALES AND LOCAL TAXES): deduction repealed over $10,000.

ESTATE TAXES: exemptions increased to $11m/22m….until 2026.
YOUR EQUITY
YOUR EQUITY

REVISIT YOUR COMPANY TAX STRUCTURE
- Run the Numbers: Is your entity the best entity? Have your accountant compare.
- Cash Basis: Starting with the 2018 tax year, the cash method is available to most businesses with average annual gross receipts for the prior three years of $25 million or less, including C corporations and businesses that maintain inventories.

INVEST IN A SMALL BUSINESS...OR GET AN INVESTOR
- Ask about Section 1202 Stock.
- Need to be a C corporation with less than $50m in assets and not a holding company.
- 80% of assets used in business operations.
- Mfg, retail, wholesale, technology...not service businesses.
- Investors must acquire at original issue.
- Investors can defer gain by selling after 6 months and buying stock in another 1202 corporation.
- Exclude gain if you hold more than 5 years.
DON'T IGNORE THE R&D TAX CREDIT

- Qualified expenditures include: wages, supplies, contracted service.

- Net benefit of the Federal credit is usually about 6-14% for each dollar spent on qualifying R&D.

- Small businesses (<$50 million in revenues) can now use the R&D tax credit against their alternative minimum tax (AMT) liability.

- Carryforward up to 20 years.

- Work with firms that specialize...ask your CPA to recommend.
TRUE/FALSE: THE STANDARD DEDUCTION IS NOW $12,100 FOR INDIVIDUALS.

TRUE
TRUE/FALSE: THE CORPORATE TAX RATE IS NOW 98%.

FALSE
TRUE/FALSE: THE R&D TAX CREDIT ONLY APPLIES TO PHARMACEUTICAL COMPANIES

FALSE
TRUE/FALSE: THE APOLLO 11 CREW WERE REQUIRED TO FILL OUT CUSTOMS FORMS WHEN THEY RETURNED FROM THE MOON.

TRUE
True/False: Arizona Diamondbacks pitcher Randy Johnson once hit a bird in flight while pitching in a game.

TRUE
SUMMARY OF ACTIONS

MEET WITH YOUR CPA NOW

YOUR EQUITY:
- Revisit your company’s tax structure.
- Invest in a small business.
- Don’t ignore the R&D tax credit.
YOUR COMPENSATION
YOUR COMPENSATION

IF YOU OWN A PASS-THROUGH, PAY YOURSELF LESS
-C-Corp - must pay a reasonable salary and deduct, all other withdrawals are dividends.
-S-Corp - Minimize compensation to reduce FICA, then use draws.

HIRE YOUR KIDS
-Pay up to $12,100 per year.
-Must be reasonable age.
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GIVE TO CHARITY
-Consider inventory, assets, equipment, computers.
-Appraisals are needed.
-Max 10% of taxable income.
-Accrual method means you can deduct if paid 2.5 months after year end.
-Business taxpayers who make business-related payments to charities or government entities for which the taxpayers receive state or local tax credits can generally deduct the payments as business expenses.
YOUR COMPENSATION

TAKE A DEDUCTION AT HOME

- Must be your principal place of business or place to meet or separate structure.
- Should be exclusive and regular.
- Unused deduction can be carried forward.
- Actual expense method based on percentages - better if you more than 300 SF or high utility or other costs, more admin work, higher risk.
- Simplified method - no records required, less admin time - max deduction is $5 per SF up to 300 SF.
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YOUR COMPENSATION:
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- Hire your kids.
- Take a home office deduction.
- Give to charity.
YOUR PROPERTY
WRITE OFF OLD RECEIVABLES AND INVENTORY
- Cannot deduct until you dispose.

SELL YOUR BUILDING THEN LEASE IT BACK
- Strategy used by Darden (Olive Garden, Longhorn), Bob Evans Farms, Sharp Electronics.
- Benefits: raises cash, cap gain can offset cap losses, deduct full rent payment.
- Downsides: lose equity and control.
YOUR PROPERTY

BUY CAPITAL EQUIPMENT
Section 179 Deduction
- Can be pre-owned.
- $510,000 - $1mm accelerated depreciation in first year.
- Must be a purchase, not inherited.
- Cannot deduct more than your income.
- Maybe ignore the deduction if there's little income this year, but projecting higher income in the future (depreciating would be better).

BUY A CAR OR TRUCK
- Accelerated depreciation for buying a vehicle in first year.
- Full first year depreciation for “heavy” (over 6K pounds) vehicles.
- Buy or lease? tax advantages may be negligible long term.
- Leasing: deduct up front and monthly payments, but pay more over 15,000 miles driven annually, no flexibility.
- Buying - Only deduct interest but get a Sec179 deduction for purchase. Own long term.
YOUR PROPERTY

REHAB YOUR PROPERTY – Rehabilitation Credit

- Rehabilitation Credit
- Rehab property built before 1936.
- Capitalize and depreciate the costs.
- Credit for 10% of expenditures (20% for certified historic structures).
- For pre-1936 buildings 75% of external walls must remain intact.

GET CREDIT FOR DISABLED ACCESS

- Maximum $5,000.
- Businesses with revenues up to $1m.
- No more than 30 employees.
TRUE/FALSE: IF YOU OWN A C-CORP YOUR DRAWS ARE CONSIDERED DIVIDENDS AND TAXED.

TRUE
TRUE/FALSE: YOU ARE UNABLE TO DEDUCT YOUR FIRST YEAR’S ASSET PURCHASE UNLESS YOU PAY FOR IT.

FALSE
## GENERAL DECLARATION

**AGRICULTURE, CUSTOMS, IMMIGRATION, AND PUBLIC HEALTH**

**Owner or Operator:** NATIONAL AERONAUTICS AND SPACE ADMINISTRATION

**Marks of Nationality and Registration:** U.S.A.

**Flight No.** APOLLO 11  
**Date:** JULY 24, 1969

**Mark of Departure from:** MOON  
**Arrival at:** HONOLULU, HAWAII, U.S.A.

### FLIGHT ROUTING

(“Place” Column always to list origin, every en-route stop and destination)

<table>
<thead>
<tr>
<th>PLACE</th>
<th>TOTAL NUMBER OF CREW</th>
<th>NUMBER OF PASSENGERS ON THIS STAGE</th>
<th>CARGO</th>
</tr>
</thead>
<tbody>
<tr>
<td>CAPE KENNEDY</td>
<td>COMMANDER NEIL A. ARMSTRONG</td>
<td></td>
<td></td>
</tr>
<tr>
<td>MOON</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>JULY 24, 1969</td>
<td>COLONEL EDWIN E. ALDRIN, JR.</td>
<td></td>
<td>MOON ROCK AND MOON DUST SAMPLES Cargo Manifests Attached</td>
</tr>
<tr>
<td>HONOLULU</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

**Embarking:** NIL  
**Through on same flight:** NIL  
**Disembarking:** NIL  
**Through on same flight:** NIL
TRUE/FALSE: 10 PERCENT OF AMERICANS THINK THAT CHOCOLATE MILK COMES FROM BROWN COWS.

FALSE. (It’s 7 percent)
SUMMARY OF ACTIONS

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YOUR PROPERTY:
- Write off old AR and inventory.
- Sell your building then lease it back.
- Buy capital equipment.
- Buy a car or truck.
- Rehab your property.
- Get credit for disabled access.

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- If you own a pass-thru. pay yourself less.
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HIRING EMPLOYEES
HIRE THE LONG TERM UNEMPLOYED
- Work Opportunity Tax credit – new hires
- Veteran, qualified ex-felon, vocational rehab, summer youth employee, food stamp recipients, SSI recipients, long term family assistance recipient, long term unemployed (27 weeks minimum).
- Top credit is $2,400 - 40% of first year wages up to $6,000.
- Credit for vets with service-connected disabilities employed for 6 months is 40% of wages up to $24,000 or $9,600.

HIRE AN ACTIVE MEMBER OF THE MILITARY
- Employer Wage Credit for Activated Reservists – existing employees
- Continue wages on employees called to active duty.
- 20% of the differential up to $20,000 - top credit is $4,000.
- Applies to employers with less than 50 people.
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HIRING EMPLOYEES:
- Hire the long term unemployed.
- Hire an active member of the military.
- Hire more independent contractors.
- Recruit more non-local employees.
PAYING YOUR EMPLOYEES
PAYING YOUR EMPLOYEES

HELP EMPLOYEES WITH DEPENDANT CARE:
- Up to $5,000 non-taxable to employee and you get full deduction.
- Must be a formal plan w/rules and cannot favor owners/spouses/dependents

BUILD OR CONTRACT OUT DEPENDENT CARE:
- Tax credit for up to 25 percent of your costs, maximum credit is $150,000.
- Qualifying costs: building a facility, paying to operate or paying an outside service.

START A DEPENDANT CARE FLEXIBLE SPENDING ACCOUNT
- Employee contribute up to $5,000 per year pre-tax
- Use it or lose it.
PAYING YOUR EMPLOYEES

OFFER GROUP LIFE INSURANCE
- Fully deductible - typical benefit is 2x employee's salary.
- Coverage over $50,000 is imputed income and must be included on employee's W-2

PAY FOR EDUCATION – EMPLOYER DEDUCTION:
- $5,250 deduction for you and no income to employee.
- Does not have to be job related.
- No more than 5% of benefits can go to owner-employees, spouses, dependents.

OFFER A BETTER PAID TIME OFF PLAN:
- Tax Reform 2017 Change
- Family Medical Leave Act: pay at least 50% of salary and get a tax CREDIT of 12.5% to 25% back.
HELP EMPLOYEES WITH ADOPTION
- You deduct up to $13,570 per child excluded and no income to employee.
- Exclusion phases out for employees starting at $203,540 income.
- Needs a formal plan.
- No more than 5% of benefits can go to owner-employees, spouses, dependents.

HELP WITH THE COMMUTE
Employers may allow employees to use up to $260 per month in pre-tax income to pay for transit vouchers, commuter highway vehicle fares and/or parking fees.
TRUE/FALSE: THE WORK OPPORTUNITY TAX CREDIT ONLY APPLIES TO BUSINESSES WITH LESS THAN 10 EMPLOYEES.

FALSE
TRUE/FALSE: YOU CAN GET A TAX CREDIT FOR OFFERING PAID TIME OFF AS PART OF FMLA.

TRUE
TRUE/FALSE: EDUCATION EXPENSES PAID BY THE EMPLOYER ARE TAXABLE TO THE EMPLOYEE.

FALSE
TRUE/FALSE: YOU CAN MAKE A PONYTAIL FOR YOUR DAUGHTER USING A VACUUM CLEANER

TRUE
SUMMARY OF ACTIONS

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PAYING EMPLOYEES:
- Help employees with dependent care.
- Offer group life insurance.
- Offer a better PTO plan.
- Help with education.
- Help with adoption.
- Pay for the commute.
HEALTHCARE AND RETIREMENT
**OFFER AN HSA**

- 40% increase in popularity over past 5 years.
- Must be combined with a high deductible (bronze) plan.
- Pretax company contributions up to $3,450/$6,900 (an extra $1,000 for >55 years old).
- Discrimination tests apply.
- Full amount can be carried over.
START A DEFINED CONTRIBUTION PLAN
- 401K Contribution Limit: $18,500 for employee, $36,000 for employer.
- 401K - Small Employer Pension Plan Startup Costs Credit - $500 tax credit for 3 years to employers w/less than 100 employees who start a 401(k) plan.

START A 529 CONTRIBUTION PLAN
- After tax contributions but grows tax free.
- Now covers higher education, private and religious school.

CONSIDER AN ESOP
- Corp contributions to buy stock for employees are deductible.
- Employees are not taxed on contributions made on their behalf.
- For S Corps, the percentage of ownership help by ESOP is not subject to Federal income tax - it's an exempt trust.
- For C-Corp, departing employees can rollover share to an IRA/retirement plan.
TRUE/FALSE: AN HSA IS LIKE A 401(K) FOR YOUR HEALTHCARE.

TRUE
TRUE/FALSE: AN ESOP COULD BE A GREAT TAX-ADVANTAGED WAY TO SELL YOUR BUSINESS.

TRUE
TRUE/FALSE: JANE JETSON WAS A TEEN MOM

TRUE!

She’s 32!  She’s 16!
TRUE/FALSE: ACCORDING TO A RECENT STUDY IN THE JOURNAL OF MICROBIOLOGY, 80% OF FAST FOOD DRINK DISPENSERS CONTAIN FECAL MATTER

FALSE*

It’s only 50%
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HEALTHCARE AND RETIREMENT:
- Offer an HSA.
- Start a defined contribution plan.
- Start a 529 plan.
- Consider an ESOP.
TRUE/FALSE: YOU ARE MUCH SMARTER THAN YOU WERE A MERE 60 MINUTES AGO

TRUE!

THANK YOU!
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