Entrepreneur

ASK THE EXPERT

The Top 4 Tax Strategies To Save Your Business Money

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DAVID MCKEEGAN
Co-founder of Greenback Expat Tax Services

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Q: What are the best ways for entrepreneurs and small business owners to save money on their taxes?

A: Tax season can be daunting for everyone, but small businesses and entrepreneurs need to pay particular attention to the benefits and deductions available to them in order to reduce their tax liability. There are many different types of business structures and strategies for how a successful business should be run, but one thing is certain -- across the board -- everyone is looking for ways to save money!

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Here are four tax strategies that can help any small business or entrepreneur save money:

1. Use your startup costs as a deduction.

Starting a new business can be really exciting, but it can also be time consuming and expensive. Fortunately, the IRS provides a tax break by allowing you to deduct up to $5,000 of your initial startup costs in your first year of business. This deduction allows you to reduce your taxable income, both for income tax and self-employment tax, which includes Social Security, and Medicare tax. Typical startup costs include things like purchasing equipment, supplies, and operational fees, but the rest of your startup costs should be depreciated over 15 years.

2. Use the special depreciation rules to take larger deductions.

When you purchase large items for your business -- items you expect to use for more than a year -- you generally cannot deduct the entire cost in that year. Instead you must depreciate the items and take a portion of the cost on your tax return each year. To get around this and deduct a larger amount in the year of purchase, you can use the special depreciation allowance. This allowance lets you take 50 percent of the cost of the item as a deduction in the year of purchase. This rule applies to almost all tangible property.

Additionally, you may also be able to take a 100 percent deduction of the cost of your business property purchased during the year using the Section 179 Deduction. This deduction can be used for all tangible property purchased for a business -- up to $500,000 of purchases during the year. Unfortunately residential rental property does not qualify for this special depreciation.

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3. Contribute to a retirement account.

Once you have established your business and have a cash flow coming in, you can shelter more of your income from being taxed. A common and practical way of doing this is to invest in your future and the easiest way is to contribute to a U.S. IRA (Individual Retirement Arrangement) account for you and your spouse.

You can each contribute up to $5,500 tax-free for the year. Self-employed individuals can also set up their own retirement accounts like SIMPLE IRAs (Savings Incentive Match Plan for Employees) and SEP (Simplified Employee Pension) accounts. With those products, you can contribute not only as an individual, but also as the employer -- doubling the amount you can put in tax-free.

4. Deduct some of your household expenses if you have a home office.

If you work out of your house, full time or part time, you may be able to deduct some of your everyday living expenses as a business expense. A home office needs to be a space that is used exclusively and regularly for conducting business, so having a desk in the guest bedroom does not qualify -- but converting a spare bedroom into an office does (without the bed!). Common home office expenses that may be deducted include mortgage interest, insurance, utilities, repairs and depreciation.

While these four tips should help to save you money on your taxes, there are many other tax-saving strategies and deductions that can be utilized by entrepreneurs and small businesses depending on each individual situation. It’s important to fully understand the different options available and do what makes sense for both you and your business.