Tax Tips For Investors & Entrepreneurs

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1. Set up a corporation:
The tax rate on the first $25,000 of retained profits is only 22%. You can set up a medical expense reimbursement plan for yourself without including employees. Your corporation can own and claim depreciation deductions on your car. Even if you're in business part-time, you can set up a tax sheltered savings plan.

2. Work a swap of products or services at every opportunity. Both you and the other guy will save a lot in taxes. Neither of you will have as much recorded profit on a swap transaction. Hence less tax.

3. Avoid employees: Have your work done by self-employed, independent contractors and save on Social Security taxes, unemployment taxes, and Workman s Compensation Insurance.

4. If you carry and inventory use the L.I.F.O. (Last-in First-out) method of valuing your inventory. Your nondeductible inventory will consist of the oldest items bought before price increases, and you will be deducting the highest priced materials of merchandise.

5. If you are trying to sell stock or are going to invest in a small corporation, ask your tax advisor about the special Section 1224 Election. If the corporation goes under, the investor can deduct up to $50,000 against ordinary income and if it succeeds he gets a capital gain when he sells out.

6. To nail down a capital gain you must hold the property more than six months, not just six months. That one extra day can make a big difference.

7. Keep your eye on the new Pension Legislation being worked on in Congress. It's shaping up as a real bonanza for small business owners. Not only so you save on Federal Income Taxes, but you may save on Social Security Taxes, and you will usually save on State or City income taxes. Earnings on pension plan savings can accumulate free of tax until you draw them out.

8. Check with the local Federal Unemployment Office about hiring workers under the W.I.N. Program. You can get a tax credit of 20% of a qualified employees first years wages. It's a real steal.

9. You can accumulate up to $100,000 of profits (after paying a 22% tax on the first $25,000 per year) in a corporation and pay a tax on only half of the accumulated amount (by capital gains route) if you liquidate instead of paying yourself a

salary of dividends. This is a very attractive pitch for investors in short term (5-10 years) ventures.

10. When in doubt, DEDUCT. The probability of an audit for small businesses with less than $30,000 is very low. Chances are your deduction will go through and even if it doesn t it will only cost you the tax you would have paid plus 6% of that tax. Just be sure you have a valid reason for the deduction. But, don t get caught on fraud charges, it isn t worth it.