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7 tax-saving tips for small biz

Avoid pitfalls that can cost you money or trigger an audit

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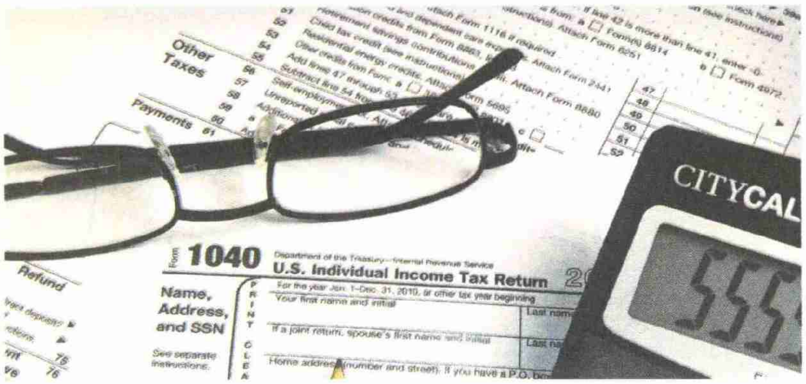

Many small and home-based business people, solopreneurs and start-up owners are serial "late filers" with their income taxes and miss out on maximizing tax benefits that are unique to them.

Here are seven tax-saving strategies that solopreneurs, startups and small and home-based business owners should heed:

1. Choose the right entity for your business

According to the Global Entrepreneur Monitor Report, 69 percent of all U.S. startups are home based and 59 percent of businesses that are more than three-and-a-half years old continue to operate as home-based. If you've decided to start a business — or maybe you've been running one for a while — then become official: Let your county, state, and the federal government know you're in business by registering with your state under the entity type that best suits your business goals. Remember, there isn't a one-size-fits-all situation for home-based businesses.

2. Audit proof your business.

Audit proofing means more than just saving receipts. Depending on the type of home-based business, you may need to keep calendars, mileage and personal use logs.

3. Get a home based-business tax professional.

If you would go to an optometrist for your eyes and a podiatrist for your feet, why wouldn't you seek out a tax professional who understands the intricacies of your type of business? Choosing a specialized tax professional can save you thousands of dollars in missed deductions, as well as time, since they know the applicable IRS regulations. Do-it-yourself software can't do it all and software is only as good as the person using it.

4. Get a second look.

In 2012, nearly a quarter of a million individual business returns not claiming the Earned Income Tax Credit (excluding farm returns) were examined by the IRS and assessed additional taxes. Many tax professionals offer complimentary consultations and will look at your prior year's returns. If the IRS is going to make sure they don't miss a dime, you should make sure you don't miss a deduction.

5. Tax planning is year-round.

If your business isn't seasonal, then you need a year-round tax plan, strategy and procedures. When you have a simple tax situation, it's OK to check on your taxes once a year if not much has changed in a year, for instance if you haven't purchased a home. However, if you're running a business, the tax implications of your decisions are a 365-day consideration.

6. Start a retirement plan.

The government makes it very advantageous for home-based business owners and solopreneurs to save for retirement. Even if you're just starting out, planning for your future is one of the best savings strategies. Take full advantage of the plan that best suits you and your long-term goals.

7. Have integrity.

It's not a deduction you'll find in an IRS publication, but running your business on the up-and-up is good for your bottom line. Tax fines and penalties for not running your home-based business like a real business are stiff. Seek the information you need to operate a successful home-based business and consistently follow the appropriate rules and regulations. ■

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