Tax Strategies for Those with a Home or Small Business

By Naomi Knudsen

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These are some tax strategies frequently overlooked by many tax preparers. Keeping up with the many tax law changes that are made each year is quite a job. You can help yourself and your accountant by making yourself familiar with how some of these fairly simple strategies can reduce your taxes, sometimes by thousands of dollars each year. The key to staying out of trouble with the IRS is consistent documentation. These strategies can be used even if you don't claim the home office deduction on your home.

Tax Tip 1 Reduce the taxes withheld by adjusting the number of exemptions on your w-4 form.
Avoid getting a large refund each year; you are simply making an interest-free loan of your money to the government. If you need help saving, set up an automatic withdraw from your paycheck into a money market account and earn some interest.

Tax Tip 2 Writing off family medical expenses
This strategy is a little more complicated but well worth the extra effort. Our family saved by deducting over $5,000 in out-of-pocket medical expenses from our home business income last year.
With two kids in braces and an unplanned surgery, medical expenses can add up quickly.
· To use this strategy, first, you must hire a spouse or other trusted family member to work for your home or small business, full or part time will work.
· Next you need to set up and sign a medical reimbursement plan. You may need the advice of an accountant to help you with this. This plan allows any sole proprietor too convert all family out-of-pocket medical expenses into legitimate business deductions
· Finally, your spouse or family member pays all out-of-pocket medical expenses for the family keeping receipts and documenting miles driven for medical purposes. At a specified time, your business reimburses your spouse or family member for these expenses and deducts them as a business expense.

Tax Tip 3 Writing off your Child's College Education Expenses
If you put your child on the payroll of your business for performing office chores etc., you can pay each child up to $4,400 a year (2001) and that amount will be canceled out by the child's own standard deduction. Your child can pay for or save for their college education with the deductible wages you pay them, and there will be no payroll taxes for your child under age 18.

Tax Tip 4 Deducting auto mileage to and from your job.
Do a few minutes of work for your home or small business before you leave the house for your job

and when you return to your house after work. Document this activity (a few email messages, letters, or phone calls) each day in your day planner, journal, etc.; and also keep a written record of your mileage. This allows you to deduct this mileage as miles between jobs, (34.5 cents per mile for 2002).

Tax Tip 5 Deducting Vacation Travel Expenses.

Try to combine business (a meeting with a client or possible client, checking out some material or resources for your business, etc.) with your vacation travel. As long as your trip is documented in advance showing an intent to, in some way, build up your business, your travel expenses become business expense deductions. Meals, hotel rooms, plane tickets, car rentals, even certain expenses for entertainment are deductible as business expenses with proper documentation.

Tax Tip 6 Deducting phone, internet service, and utility bills

If phone calls, Internet service, or utilities are used for legitimate business purposes, then, with proper documentation, they become tax-deductible business expenses. If you have a credit or debit card solely for your business, and you probably should, the annual fees and interest payments are also tax-deductible business expenses.

Tax Tip 7 Cutting your taxes when selling appreciated assets

When you are planning to liquidate appreciated assets such as stocks, give them to your child or other trusted family member in a lower tax bracket than you. When they sell the assets, they will pay taxes at their lower tax rate.

Another excellent method is to donate your appreciated assets to your favorite church or charitable organization. You are allowed to deduct the full value of the assets as a charitable contribution, and neither you nor the organization will pay any capital gains taxes on the assets.

It would be advisable to consult a tax professional or accountant for proper planning and documentation for some of the more complicated tax strategies, but using these strategies could save you thousands of dollars in taxes.

Next time we will take a look at some of the less familiar tax strategies useful for the individual and family.

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