



# TAX TIPS

## FOR ADVISING BUSINESS OWNERS





# Background

- Owner – Wright Accounting Group (2007)
- Co-Founder – FA BeanCounters (2014)
- Co-Founder – Fiduciary CFO (2022)

## Previous lives:

- Big Firm
- Mid Firm
- Government Auditor
- Opera Singer



# Agenda

- Business Entity Options & Taxation for your Business Owner Clients
- Clearing up the Gray Areas in Accounting & Bookkeeping
- Pass-Through Entity Tax Elections - What you need to know



# Business Entity Types

	Sole Proprietor	LLC	S-Corp
Tax Return Filed	1040 – Schedule C	1040 - Sch C/Single Member 1065/Multi-Member 1120S/Taxed as S-Corp	1120S
What Are Owners Called?	Owner	Member	Shareholder
Owner Must Take Payroll?	No	No (Except LLC/SCorp)	Yes
How do you get money out?	Owner Draw	Member Draw (Guaranteed Payments – Partnerships)	Shareholder Distribution And Wages
Is Net Income Subject to Self-Employment Tax?	Yes	Yes (Except LLC/SCorp)	No (SS/Med paid on Wages)



# Accounting Gray Areas

- What is an Expense?
  - Ordinary – Common and accepted in your trade or business.
  - Necessary – Helpful and appropriate for your business.
- How do you Substantiate an Expense?
  - Amount of the expense
  - Time and Place
  - Business Purpose
  - Business Relationship of People Involved



# Accounting Gray Areas - Continued

- Meals & Entertainment - **2023 (IRS Publication 463)**
  - Entertainment Expenses - **NOT DEDUCTIBLE**
    - Definition - activities considered to provide entertainment, amusement, or recreation
    - Examples:
      - Social, athletic, and sports clubs (including club dues/memberships)
      - Theaters
      - Sporting Events
      - Yachts
      - Trips (Fishing, Hunting, Vacation, Etc...)



# Accounting Gray Areas - Continued

- Meal Expenses - 50% Deductible (including taxes and tips)
  - **Taxpayer must be present.**
  - Applies to Employers, Employees, Self-Employed Persons & Clients
  - Travel away from home on business
  - Entertaining Event Meals - Must be billed separately
  - Attending a Business Function
  - Meals for convenience of employer (occasional in nature)
  - Office snacks (water, coffee, snacks, etc...)
- No Lavish or Extravagant Expenses (reasonable based upon facts)



# Accounting Gray Areas - Continued

- Meal Expense Exceptions - Qualifies for 100% Deduction
  - Expenses treated as compensation (contract employees)
  - Company Picnics & Holiday Parties
  - Promotional Food - Free food/beverages to general public
  - Sale of meals (Restaurants are not limited)
- Meal Expense Exception - Qualifies for 80% Deduction
  - Department of Transportation “hours of service” limits





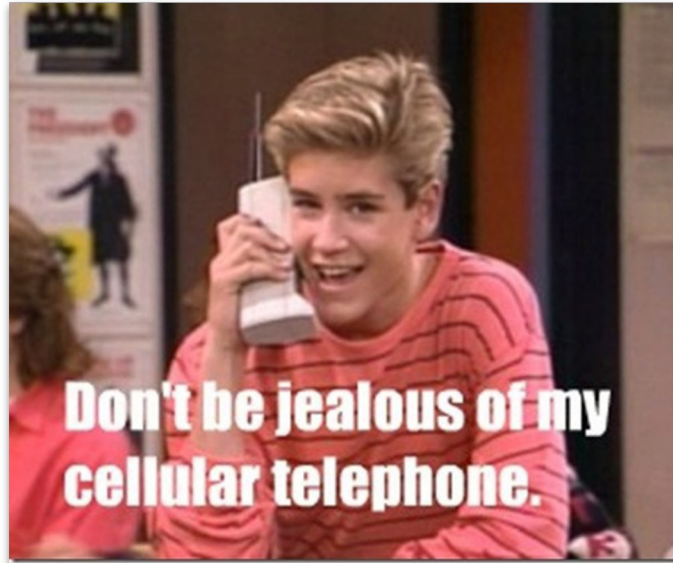
# Accounting Gray Areas - Continued

- Gifts
  - Client Gifts - Intended for personal use or benefit
  - \$25 Limit
  - To each “person” per year
    - Married Couples
    - Children of clients
  - Examples:
    - Flowers
    - Gift Baskets
    - Gift Cards
  - Incidental Costs (packaging, shipping) - Not included in the \$25
  - Exceptions - Giveaways that cost less than \$4





# Accounting Gray Areas - Continued



- Cell Phone (Mixed Business and Personal Use)
  - No New IRS Guidelines
  - “Old Rule”
  - IRS Code 2011-93 (Sept 14, 2011) - Applies to Employer Provided Cell Phones to Employees
  - Business-Use Percentage Method - Be Reasonable



# Accounting Gray Areas - Continued



- Automobile Deductions
  - A mileage log is required for both standard mileage and actual expenses. **EVERYTHING IS DRIVEN BY MILEAGE!**
  - Standard Deduction (65.5 cents/mile) - Vehicle remains a personal vehicle
  - Actual Expenses - Vehicle Business Asset
    - Gas
    - Insurance
    - Depreciation & Recapture
    - Repairs



# Pass-Through Entity Tax Elections

- Why are states (including Indiana) creating PTET elections?
- What happens with a Pass-Through Entity election?
- Does it make sense for a business to make the PTET election?



# Pass-Through Entity Tax Elections

- Why are states (including Indiana) creating PTET elections?
- What happens with a Pass-Through Entity election?
- Does it make sense for a business to make the PTET election?
- Example: Assume Taxable Income of \$100,000

MFJ - Tax Bracket	Indiana Tax Due 3.15%	1040 Tax Savings (MFJ)
22% (\$89,450-\$190,750)	\$3,150	\$693
24% (\$190,750-\$364,200)	\$3,150	\$756
32% (\$364,200-\$462,500)	\$3,150	\$1,008
35% (\$462,500-\$693,750)	\$3,150	\$1,103
37% (Over \$693,750)	\$3,150	\$1,166



## Contact Information

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