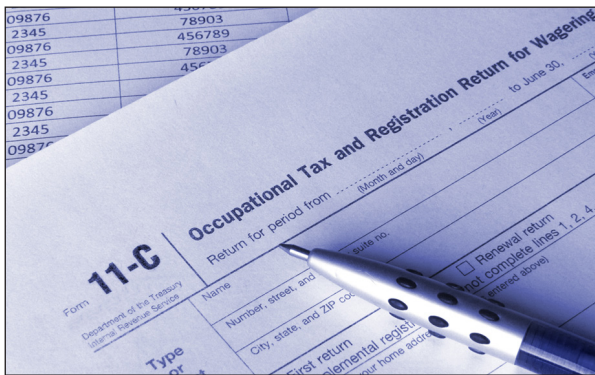




TAX PLANNING FOR THE SELF-EMPLOYED

Being self-employed has many benefits. You can make your own hours. You can choose your salary. And you will definitely get along well with your boss! But self-employment also comes with challenges, one of which is tax planning.

When you work for someone else, many tax considerations are taken care of by your employer. Income, social security, and Medicare taxes are withheld from your paycheck. When you are self-employed, the responsibility of determining the amount of taxes you owe falls to you. As such, you may want to take steps to ensure that you complete tax requirements effectively and beneficially for your business—and for you.



Understand and comply with any and all tax requirements

1. Your federal tax responsibilities. The federal government uses self-employment tax to fund social security and Medicare benefits. You must pay this tax if you have more than a minimal amount of self-employment income. Generally, you'll have to make quarterly estimated tax payments to cover your federal income tax and self-employment tax liability, which can cause a cash flow crunch. You'll probably have to make state estimated tax payments as well. If

you don't make estimated tax payments, you may be subject to penalties, interest, and a bigger tax bill at the end of the year.

2. Employee-related tax responsibilities. If you have employees, you'll have additional periodic tax responsibilities. You'll be responsible for withholding their federal employment and income taxes. As a business owner, you're also responsible for paying 50 percent of the FICA (social security and Medicare) taxes on wages paid to your employees. Payment of these taxes is a deductible business expense.

Understand and use tax deductions

1. Employ family members to save taxes. By hiring a family member, you shift business income to your relative. Your business can take a deduction for reasonable compensation paid to an employee, which, in turn, increases the amount of taxable business income that flows to you. Wages paid to children under age 18 are not subject to employment taxes. Be aware, though, that the IRS can question compensation paid to a family member if the amount doesn't seem reasonable considering services performed. In addition, when hiring a family member who is a minor, be sure that your business complies with child labor laws.

2. Establish an employer-sponsored retirement plan. Because you're self-employed, you must take care of your own retirement needs. You can do this by establishing an employer-sponsored retirement plan, which can provide you with a number of tax and nontax benefits. With such a plan, your business may be allowed an immediate federal income tax deduction for funding the plan. As an employee of the business, you can also generally place pretax dollars into a retirement account to grow tax-deferred until withdrawal. There are several types of retirement plans, so be sure to explore all of your options and consider the complexity of each.

3. Take full advantage of all business deductions.

Because deductions lower your taxable income, be sure your business is taking advantage of any business deductions to which it is entitled. You may be able to deduct a variety of business expenses, including rent or home office expenses, as well as the cost of office equipment, furniture, supplies, and utilities. To be deductible, business expenses must be both ordinary (common and accepted in your trade or business) and necessary (appropriate and helpful for your trade or business). If your expenses are incurred partly for business purposes and partly for personal purposes, you can deduct only the business-related portion.

To lower your taxable income, consider these possibilities:

- Deduct the business expenses associated with your motor vehicle, using either the standard mileage allowance or your actual business-related vehicle expenses to calculate your deduction.
- Depreciate business equipment, furnishings, and vehicles.
- Deduct the appropriate portion of business meals, travel, and entertainment expenses.
- Take the self-employed health insurance deduction, if you qualify.
- Deduct some or all of the cost of long-term care

insurance for you and your spouse.

- Consider setting up a health savings account (HSA), a tax-exempt trust, or a custodial account established in conjunction with a high-deductible health plan to set aside tax-free funds for health care expenses.
- Write off some start-up costs.

Being self-employed comes with many challenges and complexities. As a business owner, you have special needs and require individual attention. We will work with you to find a tax plan that best suits your business and use all opportunities to conserve your capital.

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