🧾 3 Tax Savings Strategies to Implement Year-Round

For Business Owners & Investors

At our firm, we don't just file your taxes—we help you understand them. Paying less in taxes is not about finding last-minute tricks in December or worse yet, March or April. It's about making smart decisions all year long. And those decisions fall into three major areas that can drastically change your tax bill—not just this year, but every year for the rest of your life.

1. 📁 Entity Selection: The Foundation of Smart Tax Planning

"Am I set up the right way?"

That's the #1 question every business owner asks us at some point—whether they're just starting out or have been in business for years. Should you be a sole proprietor? An LLC? What about an S Corporation? Is an S Corp always better? Let's talk through it.

✅ Yes, S Corps can save taxes—but only if they fit your life.

You've probably heard the hype:

"Form an S Corp and save thousands in self-employment taxes!"

And that's not wrong—we've seen real clients save **$20,000 a year in taxes, EVERY YEAR from electing S Corp status**. That's real money. But we've also seen it go the other way. The wrong S Corp setup can cost you over **$100,000**.
Here's how:

💼 Example: W-2 Warnings

If you're an S Corp, you **must** pay yourself a **reasonable W-2 salary** before taking distributions. If you don't, the IRS may reclassify your distributions as wages, triggering payroll tax liabilities, penalties, and interest. We've seen business owners audited for this and it's a painful—and expensive—experience.

Compare that to a stand alone LLC or sole proprietor. They can take owner distributions at will—no payroll required.

🤝 Example: The 50/50 Partner Trap

Say you and your business partner start an S Corp. You own 50% and contribute $50,000. Your partner, who's handling operations, contributes time but no money. Problem: S Corps require **equal capital contributions** if ownership is equal.
If you violate that rule? You risk **losing your S Corp status**—and if that happens, the IRS

automatically reclassifies you as a C Corporation, triggering **double taxation**: once when the business earns income, and again when it's paid to you.

Double taxation & back taxes can ruin a business. We've seen it.

🏠 **Example: Real Estate Regret**

If your S Corp owns real estate—whether that's farmland, rentals, or even your business location—you're walking into a future tax disaster.
Imagine buying a building for $500K inside your S Corp. Twenty years later, it's worth $1M.
You retire and want to take the building out of the S Corp—maybe keep it for rental income.

Boom—$500K capital gain is triggered, even though you didn't sell the property.
Why? Because **appreciated property distributed out of an S Corp** creates a **taxable event**—gain is recognized immediately.
Now imagine that same property owned by a **standalone LLC**. You can pull the property out, gift it, or transfer it with no immediate gain recognition. And if you pass away, your heirs get a full **step-up in basis**. If its owned in a S Corp, not so much.

So ask yourself:

Is the S Corp structure saving you money, or costing you silently over time?

Entity choice affects:

- Retirement plan contributions
- Your ability to claim deductions (like QBI, mileage, home office)
- Exit strategies
- Risk management
- And your lifetime tax bill

There's no one-size-fits-all. The right entity depends on your income, goals, partners, real estate, and more. Picking the wrong one can quietly cost you tens or hundreds of thousands over your lifetime.

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2. 💸 Knowing How Your Cash Outflows Affect Taxable Income

As a business owner or investor, money goes out of your accounts all year long:
new equipment, loan payments, property improvements, inventory purchases...

But here's the problem:

Not every dollar you spend lowers your taxes.

We see it all the time—someone spends $50,000 and assumes they'll get a $50,000 tax deduction. But when we prepare their return? No deduction. Ouch.

Let's break it down.

🚫 Not All Cash Outflows Are Tax Deductions

Here are some common expenses that **do not reduce taxable income** right away:

Type of Cash Outflow	Deductible Now?	Explanation
Inventory purchases	❌	Not deductible until sold
Debt repayments (principal)	❌	Only the **interest** is deductible
Real estate purchases	❌	Must be capitalized and depreciated over decades
Major property improvements	❌ / ✅	Often depreciated over decades
Clean energy improvements	❌ / ✅	Only if IRS requirements are met

📦 Inventory Example:

You run a business that sells physical products. In December, you spend $50K on inventory hoping to reduce your 2025 taxes. But unless those items **sell** before year-end, **no deduction** shows up on your 2025 return.

🏦 Loan Repayment Example:

You made $200K in business profit this year, but used $150K to repay debt. That leaves only $50K of cash in your pocket. Unfortunately, the IRS doesn't care—you'll still pay taxes on

the full $200K. Why?
Because debt repayments aren't deductible. Only the **interest** portion is.

🏘️ **Real Estate Example:**

You bought a rental property or business building and made a $100K down payment. Expecting a deduction? Think again. That down payment is part of the **capitalized cost**, and your tax deduction will be spread out over **27.5 or 39 years**, depending on the property type.

Same goes for improvements like new roofs, HVAC, or remodeling. Some pieces may be deductible, but most large repairs must be depreciated unless structured properly.

⚠️ **Clean Energy Credits: Buyer Beware**

We've had clients read online that a solar installation or electric vehicle "qualifies for a tax credit"—only to find out it doesn't meet all the IRS criteria.
These credits are **complex and very specific**, and if you misinterpret them, you'll lose out entirely.

Bottom line:
Just because money leaves your account doesn't mean it reduces your taxes. Tax-smart business owners track spending and understand which cash outflows will pay off at tax time—and which won't.

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3. 📠 Depreciation Timing: Don't Let the IRS Trick You with Year-One Write-Offs

Ever hear this?

"My CPA got me a huge deduction using Section 179—I barely paid anything in taxes!"

Sounds great… until next year.

Let's say you buy $100,000 worth of equipment in 2025. You made $200K in profits. Your CPA uses **accelerated depreciation** (Section 179 or bonus depreciation) and wipes out $100K of your income. You only pay tax on $100K. Feels like a win, right?

Well, what happens in 2026?

If your income stays at $200K but you don't buy more big-ticket items, your **full $200K is now taxable**. Worse yet, your tax bracket might go up.

💰 **Tax Bracket Planning Example:**

- In 2025, you're in the 24% bracket: $100K deduction saves you $24K.
- In 2026, you're in the 35% bracket: no deduction, more tax paid.

Had you **spread out depreciation**, the deduction in 2026 would have saved more money—**35 cents per dollar** instead of 24.

💸 **The Loan Repayment Trap:**

What if you borrowed the $100K to buy that asset? Now you're stuck with monthly payments for the next 5 years—but **you already used up the full deduction in Year 1**. In Years 2–5, you'll be making loan payments with **no corresponding tax deduction**.

This mismatch can kill your cash flow as it can leave you with a high taxable income and a low net cash flow.

🎯 Other Strategic Opportunities

While accelerating depreciation can sometimes create problems if used without planning, it can also be an incredibly powerful **strategic tool—when used intentionally**.

In fact, **accelerated depreciation might be exactly what opens the door to other high-value tax opportunities**:

Opportunity Unlocked	Why It Matters
✅ **Roth/Traditional IRA Contributions**	Accelerating deductions can reduce your Modified AGI enough to make you eligible for a Roth/Traditional IRA contribution when you otherwise wouldn't qualify.
✅ **Claiming Passive Losses**	If you own rental real estate and are phasing out of the $150,000 income limit for deducting passive losses, a big depreciation deduction may bring your income low enough to use those losses.
✅ **Qualifying for Credits**	Some tax credits—like the Child Tax Credit, Education Credits, or Clean Energy Credits—are reduced or eliminated at higher income levels. Lowering your taxable income through depreciation may preserve those benefits.

So while we often warn about the issues that can come from using Section 179 or bonus depreciation too aggressively, the truth is:

Accelerated depreciation isn't good or bad—it's a tool. And the right tool, used at the right time, can create huge tax savings.

The goal should be to help you make the **best decision each year**—one that maximizes your **after-tax cash flow** not just now, but over the next 5, 10, or 20 years.

That means asking questions like:

- Are you in a year where lowering income unlocks other tax benefits?
- Will next year's income be higher, putting you in a higher bracket?
- Is it better to preserve deductions for future years with larger tax exposure?
- Are there any new tax laws upcoming that affect what I should do?

It's all about strategy, not shortcuts. Most preparers simply check the box and expense everything. Deeper questions need to be considered—because the smartest path forward changes year to year.

✅ Final Thoughts

These three areas—**Entity Selection**, **Cash Outflow Awareness**, and **Depreciation Timing**—represent some of the most impactful parts of the tax code for business owners and investors. They are also the most commonly misunderstood.

The goal of this guide is to help you recognize how everyday business decisions—like how your business is structured, when you buy assets, and how you spend money—can have long-term tax consequences.

There isn't always a "right" or "wrong" answer across the board, but there *is* a better answer for your specific situation depending on your income level, goals, and timeline. What saves one person money could cost another more in the long run.

By paying attention to these areas throughout the year, you can better manage your taxable income, improve after-tax cash flow, and avoid tax surprises when it's time to file. The key is to plan intentionally—not reactively—and understand how each financial move fits into the bigger picture.

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