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Tax-Saving Tips

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Turn Your Vacation— Even a Luxurious One—into Tax- Deductible Business Travel

Here's an idea: how about transforming your next vacation into business travel?

With careful planning, your transportation to any destination could be fully deductible. This includes airfare—even first-class—luxury hotel stays, and cruise expenses. If you can tie your travel to business purposes, you can enjoy substantial tax savings, depending on your tax bracket.

Two Main Types of Deductible Expenses

Transportation. If your trip within the U.S. primarily serves business purposes, you can deduct 100 percent of your transportation costs. But if the trip is mainly personal, you cannot deduct transportation.

Living expenses. While on a business trip, you can deduct lodging and meal costs on your business days but not on personal days.

Five Essential Rules for Deductibility

To ensure your travel expenses qualify as business deductions, consider these guidelines:

- **Profit motive.** You should expect the trip to contribute to your business's profitability.
- **Overnight stay.** Only trips that require you to stay overnight qualify.
- **“For only” test.** Ask yourself if a rational businessperson would undertake the trip solely for business reasons.
- **Primary purpose test.** The primary reason for your travel must be business-related, with the majority of your days spent on business activities.
- **Record-keeping.** Documenting your trip's business purpose, expenses, and activities is crucial.

Real-Life Success Stories

Numerous taxpayers have successfully deducted their travel expenses by adhering to these principles. For instance, corporate meetings held in attractive locations with substantial business discussions and activities have been fully deductible. Similarly, traveling to expand business operations or attending conventions relevant to your business qualifies.

Avoid Common Pitfalls

However, trips primarily for entertainment or lacking a clear business purpose have led to denied deductions. Establishing and documenting a legitimate business rationale for your travel is essential.

Take Action

Before planning your next trip, consider how you might integrate business purposes. Whether you are attending a seminar relevant to your industry or meeting with potential clients, these activities could significantly reduce travel costs through tax deductions.

BOI Reporting Deemed Unconstitutional for Some

On January 1, 2024, the Corporate Transparency Act (CTA) went into effect. The CTA requires most smaller corporations, most limited liability companies, and some other business entities to file a beneficial ownership information (BOI) report with the U.S. Department of the Treasury Financial Crimes Enforcement Network (FinCEN).

The BOI report identifies and provides contact information for the human beings who own or control the entity. FinCEN will share this information with law enforcement to combat money laundering and other illegal activities.

About 32 million existing and most new businesses are subject to this filing requirement. Since the first of the year, about 500,000 BOI reports have been filed online at the FinCEN website.

But on March 1, 2024, a federal district court (federal trial court) in Alabama ruled that the Corporate Transparency Act was unconstitutional. In *National Small Business United v. Yellen*, No. 5:22-cv-01448 (N.D. Ala. 2024), the court issued an injunction staying enforcement of the CTA against the two plaintiffs in the case: a single individual business owner and the National Small Business Association—a 65,000-member nonprofit organization of small business owners.

The district court ruling created some uncertainty among businesses subject to the CTA (termed “reporting companies”). Here’s what you need to know:

- If you were not a member of the National Small Business Association as of March 1, 2024, this decision has no immediate impact on you. FinCEN still expects all reporting companies to comply.
- As expected, the Justice Department, on behalf of the Department of the Treasury, filed a notice of appeal on March 11, 2024. In other words, this trial court decision is far from the final word on the CTA’s constitutionality.
- No one can predict how the courts will ultimately rule, but many legal experts believe there are strong legal grounds to reverse the trial court’s decision.

- If your reporting company existed before 2024, you have until January 1, 2025, to comply with your BOI filing requirement. So you can wait until late 2024 to see what happens with the pending litigation.
- If your reporting company was formed during 2024, you have only 90 days after your articles of incorporation, articles of organization, or similar documents were filed with the secretary of state to file your BOI report. You can't afford to wait.

Meanwhile, New York adopted its own BOI reporting law that applies only to limited liability companies formed in New York or formed out of state that register to do business in New York. Existing LLCs must file their reports with the New York Department of State by January 1, 2025. Newly formed LLCs will file their reports when they file their articles or registrations. Other states, such as California, are considering enacting similar laws.

Tax Reform Doubles Down on S Corporation Reasonable Compensation

From 2018 to 2025, the Tax Cuts and Jobs Act is offering a 20 percent deduction on pass-through business income, with specific eligibility criteria. This deduction impacts the choice of entity. For instance, should you operate as a sole proprietorship or an S corporation?

The Importance of Reasonable Compensation

When operating your business as an S corporation, you must pay yourself “reasonable compensation.”

Failing to do so can result in penalties, increased taxes, and missed deductions.

Balancing Act for S Corporation Owners

Lowering salary. While reducing your salary might seem attractive to increase pass-through income and the Section 199A deduction, it risks IRS penalties and reduced benefits.

Increasing salary. Conversely, a higher salary increases payroll taxes and potentially reduces your Section 199A deduction.

Unique Situation: Zero Salary

In rare cases, you might not need the S corporation to pay you a salary (e.g., you do not actively provide services to your S corporation). This setup can maximize your pass-through income and Section 199A deduction, but it requires careful planning to ensure legality.

S Corporation versus Sole Proprietorship

Choosing between an S corporation and a sole proprietorship is a nuanced decision, impacted by the Section 199A deduction, payroll taxes, and reasonable compensation requirements. While S corporations can offer Social Security and Medicare tax savings, sole proprietorships benefit from a more straightforward tax structure and potentially higher Section 199A deductions under certain conditions.