How To Instantly Double Your Deductions
And Slash Your Taxes to the Bone . . .

. . . before, during, and even after Tax season

The Easiest Way for Any Small Business
(including Home-Based & Part-Time Businesses)
to Immediately and Legally Pay Less Tax NOW

(oh, this includes Self-Employed People, too!)

By
Wayne M. Davies

Contact Information:
Wayne M. Davies Inc.
4660 W. Jefferson Blvd., Suite 220 / Fort Wayne, IN 46804
Tel: (260) 459-3858 / Fax: (260) 459-0124
Email: Wayne@YouSaveOnTaxes.com
http://www.YouSaveOnTaxes.com
Copyright 2006 Wayne M. Davies Inc.

Copyright 2006 Wayne M. Davies Inc.

ALL RIGHTS ARE RESERVED. No part of this book may be reproduced, stored in a retrieval system, or transmitted in whole or in part, in any form or by any means (mechanical, electronic, photocopying, recording, or otherwise), without the prior written permission of the Publisher.

Published by:
Wayne M. Davies Inc.
4660 W. Jefferson Blvd., Suite 220
Fort Wayne, IN 46804
Tel: (260) 459-3858
Fax: (260) 459-0124
http://www.YouSaveOnTaxes.com
Wayne@YouSaveOnTaxes.com

DISCLAIMER AND/OR LEGAL NOTICES:

While all attempts have been made to verify information provided in this publication, neither the Author nor the Publisher assumes any responsibility for errors, inaccuracies or omissions. Any slights of people or organizations are unintentional.

Neither the Publisher nor the Author are rendering tax, legal, accounting, or other professional advice. Tax strategies and techniques depend on an individual's facts and circumstances; accordingly, the information presented in this book must be correlated with the individual's tax situation to establish applicability. Moreover, because of the complexity of the tax laws, the constant changes resulting from new developments, and the necessity of determining appropriateness to a particular taxpayer or business entity, it is important that professional advice be sought before implementing the tax ideas presented in this book.

PRINTED IN THE UNITED STATES OF AMERICA

Table of Contents

Introduction

PART ONE:
Timely Tax Tidbits Guaranteed to Tickle Your Tastebuds

Tax Tidbit #1:
How To Turn Non-Deductible Commuting Mileage Into A
Legitimate Business Expense

Tax Tidbit #2:
How To Get A $1,000 Refund By Filing An Amended Tax Return

Tax Tidbit #3:
Carpe Diem -- Seize The Per Diem Method (and Throw Away Your Receipts)

Tax Tidbit #4:
How to Let the IRS Pay for Your Kids' Summer Camp

Tax Tidbit #5:
How to Deduct Your Next Vacation

PART TWO:
New Tax Law Turns Small Biz Loophole Into A Crater!

PART THREE:
The Biggest Tax Mistake You Can Ever Make (and How To Avoid It)

PART FOUR:
Why the Most Important Business Decision You Probably Never Made is the Key to Paying Thousands Less in Taxes

ABOUT THE AUTHOR

Introduction

As you probably already know, taxes is the largest expense you have.

Period.

So, what is the easiest way for you to increase your cashflow and put more money in your pocket? The answer is obvious: Reduce your taxes.

Period.

And that's the purpose of this eBook. To give you, the typical Small Business Owner or Self-Employed Person, easy-to-understand and easy-to-implement tax reduction strategies.

By the way, if you are not a Small Biz Owner or Self-Employed Person, you probably won't find much to help you here. Sorry!

And by "Small Business", I'm including the Part-Time Business Owner as well as the Home-Based Business Owner. Maybe you've got a regular full-time "day job" and have aspirations to some day tell your boss that you are ready to fly solo.

But even if your business is very small and you only devote a few hours a week to it, you can still take advantage of every deduction in this eBook.

I've done my best to keep this stuff simple. Let's get started!

PART ONE:
Timely Tax Tidbits Guaranteed to Tickle Your Tastebuds

Taxes is an incredibly complicated subject. Do you ever feel like it's just not worth trying to understand our crazy tax system? If so, you are not alone. That's how most small biz owners feel.

That's why I've written this eBook -- to explain some of the best tax-saving strategies in true "plain English".

If you'll take a few minutes to master the content of this eBook, you can easily put several thousand dollars in your pocket instantly!

So let's start with a few short but sweet "tax nuggets" for the Small Biz Owner and/or Self-Employed Person, each morsel serving up a specific tax reduction strategy guaranteed to tickle your monetary tastebuds.

The U.S. Tax Code is so big, there's only one way to digest it: one little nibble at a time.

Just like a piece of candy, one small bite of tax knowledge can give you one very delicious deduction!

Tax Tidbit #1:

How To Turn Non-Deductible Commuting Mileage Into A Legitimate Business Expense

For most folks, commuting mileage is a non-deductible expense -- unless you know the little tax trick I'm about to reveal.

The non-deductibility of commuter miles is painfully true for the employee who fights rush hour traffic every day, twice a day, for 5 to 10 hours a week.

All that hassle, and what does he have to show for it?

Just gas money down the drain, not to mention the wear and tear on both his vehicle and his stress-o-meter.

You can deduct virtually all your mileage, including the miles you log from your home to the office or other place of business, if you meet the following two criteria:

1. You are a small business owner or self-employed person, and

2. You have two offices or work locations: one outside the home (Office #1) and one inside the home (Office #2).

Having two offices is very common for today's self-employed professional. The store owner, the shopkeeper, the salesman, the plumber, the consultant -- all these folks are typically self-employed and have two offices: one where they meet with the public (Office #1), the other at home, where they get their paperwork done (Office #2).

Here's how it works:

Every day you get up and "go to work." But you don't get in the car and drive to Office #1 right away. If you did that, even as a self-employed person, you would be racking up non-deductible commuting miles, just like the employee.

Instead, you grab a cup of coffee and head to Office #2 first, which takes all of 30 seconds.

After working in Office #2 for awhile, then you hop in the car and head to Office #1, where you work for the bulk of the day.

Then, when you're done at Office #1, you get back in the car and go "home" -- except when you get inside your house, you don't head for the living room, you go straight to Office #2, where you finish up your daily routine with a few final minutes of paperwork.

What have you just done?

You daily round-trip "commute" is now a business deduction, due to a simple tax loophole that says: Any miles driven between two business locations are deductible business miles.

The fact that one of those two locations just happens to be your Home Office is fine and dandy with the IRS.

By following this route each day, you can save hundreds, even thousands of dollars in taxes.

The proof is in the pudding:

Let's say your round-trip "commute" is 20 miles per day.
20 miles X 5 days = 100 miles per week.
100 miles per week X 50 weeks = 5,000 miles per year.
5,000 business miles X 44.5 cents = $2,225 deduction

NOTE: 44.5 cents is the standard IRS mileage rate in effect as of January 1, 2006. In 2005, there were two mileage rates:

January 1 – August 31, 2005	40.5 cents
September 1 – December 31, 2005	48.5 cents

So, you just got yourself a nice $2,225 deduction -- a deduction that you've probably been entitled to for years but didn't know it.

$2,225 deduction X 30% income tax rate = $667 in actual
tax savings (25% federal tax + 5% state tax)

Six-hundred and sixty-seven bucks. . . every year. . .

. . . Hmm, mmm, good! Now that's a tasty little morsel!

Tax Tidbit #2:

How To Get A $1,000 Refund By Filing An Amended Tax Return

Every April, aren't you glad another Tax Season is over?

Ah, yes -- another tax return filed, another tax return "in the books."

Well, I've got a pleasant surprise for you.

Did you know you can actually get a refund for a return that you already filed?

Yep, it's true.

If you think you forgot a deduction on a previously filed return, you have three years to tell the IRS about it and receive a refund.

Here's how it works: You can file an amended return up to three years after the due date of the return in question.

So, for Year 2004 returns due April 15, 2005 -- you have until April 15, 2008 to file a correction.

For Year 2003 returns due April 15, 2004 -- you have until April 15, 2007 to file a correction.

And for Year 2002 returns due April 15, 2003 -- you have until April 15, 2006 to file a correction.

Now the question becomes: Is it worth it? I mean, do you really want to spend the time and energy doing tax paperwork -- and it's not even Tax Season!

I know, I know -- you've got better things to do with your time.

So here's an incentive to make it worth your time: If I offered you a little part-time job that paid about $150 per hour, would you be interested? I think so.

Well, that's how you should look at the task of filing an amended tax return. Do the math:

You discover $1,000 of unreported deductions on your return from Year 2002, 2003 or 2004. So you do the research, prepare the proper forms (or have your accountant do it), and send them off to the IRS.

If you are in the 30% tax bracket (say, 25% federal plus 5% state), you will get a $300 refund for your efforts. And even if it took you 2.0 hours of paperwork drudgery, Uncle Sam just paid you a cool $150/hour. Not bad, eh?

To file an amended federal income tax return, here are the links to the necessary forms:

Form 1040X -- in pdf format:
http://www.irs.gov/pub/irs-pdf/f1040x.pdf

Form 1040X -- in "fill-in" pdf format:
http://www.irs.gov/pub/irs-fill/f1040x.pdf

IRS instructions for Form 1040X:
http://www.irs.gov/pub/irs-pdf/i1040x.pdf

You should also file an amended state return (assuming your state has an income tax). For a link to a database of all state income tax forms, check out:
http://taxes.yahoo.com/stateforms.html

Don't forget: if you're able to find $1,000 worth of unreported deductions on one previously filed return (resulting in tax savings of $300), there's a good chance the same situation exists for the other 2 "open" years.

End result: $300 x 3 = $900 in total tax savings . . .

. . .Hmm, mmm, good! Now that's a tasty little morsel!

Tax Tidbit #3:

Carpe Diem -- Seize The Per Diem Method (and Throw Away Your Receipts)

The mantra of tax recordkeeping has remained relentlessly burdensome for decades:

"No Receipt, No Deduction".

But fear not, you who loathe the never-ending climb up the mountain of paperwork required by the U.S. tax code.

Many of our most beloved tax rules have exceptions, and such is the case with this one.

Believe it or not, there are actually expenses you can legally deduct without a receipt. Here's one for self-employed folks who travel out-of-town on business.

When it comes to deducting your meals while on an overnight business trip, you have two options with regard to record-keeping.

OPTION #1:

You keep your receipt from each meal and simply deduct the cost of the meal times 50%, a la the "No Receipt, No Deduction" rule.

OPTION #2:

You use The Per Diem Method to determine your meal deduction. For each day of the trip, you are allowed a daily meal allowance, depending on what part of the country you were visiting.

For example, the per diem meal rate for Birmingham, AL is $42. For San Francisco, it's $50.

Like Option #1, your actual deduction is 50% of the per diem amount -- $21 in Birmingham and $25 in San Fran.

To find the per diem allowances, go to:

http://www.policyworks.gov/perdiem. If a particular area is not listed, then the allowance is $30 per day.

Take note: There are two very nice advantages to The Per Diem Method.

Benefit #1: You don't have to keep receipts for your meals. Yep, you can pitch 'em. Scouts honor.

Benefit #2: It doesn't matter how much you actually spend on meals, you still get to deduct 50% of the per diem amount. This can result in hundreds of dollars in tax savings for you.

Example:
You regularly go to several major cities for overnight business trips, traveling about five days each month. These cities all have a per diem rate of $50.

You are frugal. To save both time and money, you prefer to eat at fast food restaurants three times a day. On average, you spend only $20/day on meals.

But the per diem rate is $50/day. If you used Option #1, your actual deduction would be $20 x 50%, or $10/day.

With Option #2, you get to deduct $50 x 50%, or $25/day.

The difference between Option #1 and #2 is $15/day.

Over the course of the year, this adds up to an extra $900 in deductible meal expenses ($15/day x 60 days) -- even though you didn't actually spend the extra $900!

End result: you save $270 in taxes (assuming your combined federal and state income tax rate is 30%).

And you can throw away 60 days worth of meal receipts.

Whoa . . . $270 in tax savings without spending a dime.

. . . Now that's a tasty little morsel!

One final note: The per diem method is available to Sole Proprietors, Partners and LLC Members. If your business is a Corporation and you own more then 10% of the company stock, you can't use the per diem method for yourself. Sorry! That's taxes for ya.

Tax Tidbit #4:

How to Let the IRS Pay for Your Kids' Summer Camp

When summer day-camp season comes around, here's a way to let Uncle Sam pick up the tab for your children's fun.

Many parents take advantage of the child daycare credit. Well, this same credit can also be used for summer day-camp expenses.

The child-care credit applies to expenses you incur for the care of children under age 13 while the parents are working. And "working" applies to both an employee job as well as self-employment.

Sending your child to a day-camp during the summer counts as a qualified expense for purposes of the child-care credit.

And by "day-camp", don't limit yourself to the traditional YMCA-type scenario. There are plenty of other programs that qualify, such as:

1. Sports camps: Soccer camp, baseball camp, basketball camp, football camp, volleyball. These all count.

2. Academic camps like computer camp or other scholarly pursuits.

3. Fine arts camps for music, drama, and art.

Kids (and parents!) sure have a lot of choices these days.

The key requirement for getting the day-care credit is that the camp not be a sleep-over camp. The child must only spend time there during the day.

You take the credit on Form 2441, Child and Dependent Care Expenses. The amount of your credit depends on your income. Take a peak at Form 2441 to calculate your credit:

First, find your adjusted gross income from Line 36 of Form 1040. If your income is greater than $28,000, your credit is likely to be 20% of the day-camp expense.

(If your income is less than $28,000, the percentage is greater than 20% -- so be sure to check Form 2441 if you happen to be at that income level).

Next, you multiply the day-camp expense by 20%, and that's the potential tax credit amount. I say "potential" because there's one more step to complete the calculation -- if your income is greater than $28,000, your maximum

childcare credit is $480 if you have one child and $960 if you have two or more children with daycare expenses.

So, if you have $1,000 of day-camp expense this summer, you get a $200 tax credit on your personal income tax return.

Two-hundred bucks . . . now there's a tasty little morsel!

To access Form 2441, visit:
http://www.irs.gov/pub/irs-pdf/f2441.pdf

Tax Tidbit #5:

How to Deduct Your Next Vacation

It is perfectly legal to deduct your next vacation. Here's how to do it.

To qualify for this deduction, you must meet the following two criteria:

1. You are self-employed or own a small business
2. On your next trip, you combine business with pleasure.

The first requirement is pretty cut and dried.

The second requirement is somewhat trickier and will be the focus of this section.

To deduct any U.S. trip, you can combine business and pleasure, but the primary purpose of the trip must be business.

And here's how the IRS defines a trip taken primarily for business purposes: the number of "business days" must be greater than the number of "personal days". To complete the definition, travel days are considered "business days".

Here's an example to clarify the rules:

You take a 10-day "vacation" to Orlando. You spend one day getting there and one day getting back. You spend 4 days attending a seminar. The other 4 days are spent with Mickey Mouse & Company.

Let's tally up the days:

Business Days = 6 (2 travel days + 4 seminar days)
Personal Days = 4 (doing theme parks)

So, are the number of business days greater than 50% of the total days? Yes. So here's what you get to deduct:

-- 100% of your transportation expenses (even though 40% of your days were personal days)

-- 100% of your "on-the-road" expenses for the 6 business days, including hotel bills, cab fares, rental car, seminar fees, dry cleaning, laundry and meals. (Although the meal expenses are still subject to the 50% rule.)

The on-the-road expenses for the 4 personal days are not deductible. But you're still getting a great tax break here.

Assuming you spend $1,000 for transportation and the 6 business day expenses, a sole proprietor in the 35% tax bracket (15% federal tax + 15% self-employment tax + 5% state tax) saves $350.

Three hundred and fifty bucks!

Hmmmm . . . now that's a tasty little morsel!

PART TWO:
New Tax Law Turns Small Biz Loophole Into A Crater!

In case you were too busy back in 2003 to notice, our beloved politicians passed another tax bill designed to put more dollars in your pocket.

President Bush signed the new tax law on May 28, 2003 -- and there is truly something for everyone in this package, a veritable smorgasbord of tax savings.

If you are a Small Business Owner or Self-Employed Person, there's one especially lucrative tax break.

It's actually an expansion of a tax rule that's been on the books for years. Known as the Section 179 deduction, the new legislation takes this loophole and turns it into a deduction big enough to drive a fleet of SUV's through.

The Section 179 deduction enables the Small Business Owner to deduct 100% of the cost of most business equipment, in lieu of depreciation over several years.

What's so great about that?

Think about it like this: I've got a dollar and I'd like to give it to you. You have two choices -- I give it to you now, or I give it to you 5 years from now.

Which do you prefer?

Obviously, you'd rather have it now, right?

And why is that?

Because of what you learned way back in Finance 101: something your banker calls "the time value of money."

I'll spare you a boring textbook definition. Instead, let's just assume we agree on this simple point: Is a dollar worth more today or 5 years from today?

It's worth more today, right?

And that's why the Section 179 deduction is so valuable.

Huh?

Let's use an example to bring all this financial theory into reality.

You buy $5,000 worth of office equipment in 2005. Under normal depreciation rules, you wouldn't get to take a deduction for $5,000 in 2005. Instead, you'd write off the $5,000 over 6 years -- part in 2005, part in 2006, etc.

If you're in the 35% tax bracket, you get your $1,750 in tax savings over 6 years. Yawn. That's a long time!

You'd get your deduction, and the resulting tax savings, but you'd have to wait 6 years to realize all the benefits.

Section 179 says that if you meet certain requirements, you can deduct the full $5,000 in 2005. You reduce your taxes by $1,750 in Year 2005.

So let me repeat my question: Uncle Sam has $1,750 he'd like to give you. When do you want it? All at once, or spread out over 6 years?

That's the beauty of Section 179.

But you have to meet certain requirements to benefit from Section 179. One requirement concerns the total amount of equipment you can deduct rather than depreciate. In 2002, the amount was $24,000. And for 2003, the amount was originally set at $25,000.

Until Congress and the President passed the new tax bill in late May 2003 that raised that amount to a whopping $100,000. And since that $100,000 is adjusted for inflation each year, the maximum Section 179 deduction amounts have been increasing each of the past 3 years:

Year 2004 -- $102,000
Year 2005 -- $105,000
Year 2006 -- $108,000

Never liked depreciation? Well, you can pretty much kiss it good-bye now. If your business buys more than $100,000 of equipment in a single year, it ain't so "small" any more! So this new law should cover all small businesses. Enjoy!

One final note: A few other requirements must be met to claim the Section 179 deduction. Here's a brief overview:

1. Most personal property used in a trade or business can be deducted via Section 179. Real property cannot. Typical examples of personal property include: office equipment such as computers, monitors, printers and scanners; office furniture; machinery and tools. Real property means buildings and their improvements.

2. The $100,000 amount (adjusted for inflation) can be used through 2007. In 2008, unless new legislation is passed, the amount goes back down to $25,000.

3. There are special rules regarding the use of Section 179 to the purchase of business vehicles. For example, the special "SUV rule" that allowed 6,000 LB vehicles to be fully deducted (up to the $100,000 amount) was changed to $25,000, effective October 22, 2004.

4. Your total Section 179 deduction is limited to the business' annual profit. In other words, you cannot use the Section 179 to create or increase a loss.

This is known as the "taxable income limitation." For "C" Corporations, this limitation is very cut and dried. But if your business is an "S" Corporation, Partnership, LLC, or Sole Proprietorship, it may not be as limiting as it seems. For these non-"C" Corp businesses, the Section 179 deduction can be used to offset both business and non-business income.

And if you're married filing jointly, the Section 179 deduction can offset your spouse's income, including W-2 income.

Example: You start a new business in 2005 that ends up with a loss for the year of $5,000 (before taking the Section 179 deduction). Your spouse has W-2 income of $60,000. Even though your business is unprofitable, you can still take the full Section 179 deduction of $5,000 (again, assuming your business is an entity other than a "C" Corporation).

(Be sure to consult with your tax professional to get the scoop on all the Section 179 rules.)

Be sure to take advantage of this new loophole. A very nice deduction just got expanded to monstrous proportions!

Take advantage of it.

PART THREE:
The Biggest Tax Mistake You Can Ever Make
(and How To Avoid It)

Have you ever noticed how American taxpayers everywhere breathe a collective sigh of relief on April 15?

Does this sound familiar: “Whew, I’m sure glad another Tax Season is over!”

Unless you filed an extension, you've got your tax return done and now you can forget about taxes for another year.

Yep, that has a nice ring to it, doesn't it?

It sounds so good, I think I'll say it again:

"Now you can forget about taxes for another year."

If you found yourself agreeing with me there, guess what?

I gotcha!

I just caught you making the biggest tax mistake you can possibly make -- the incredibly short-sighted attitude that taxes is a "once-a-year" thing, something you do only because you are forced to deal with it every spring, and then you are so fed up with the whole mess that you gladly forget about it until next spring, and then, only because you are forced to deal with it again!

If this is the way you approach taxes, you are doomed to overpay your taxes forever!

(Oh, pardon me for just a second while I climb up on my soapbox, turn up the volume, and let it rip. I'm goin' to preach this message till the cows come home!)

And what message is that, you ask?

My message today is a simple one, but unfortunately, one that often falls on deaf ears. So please, I really do hope you are listening with your ears wide open.

Here it is, my Post-Tax Season Message (but it is applicable any time of year):

If you only pay attention to your tax bill during Tax Season, then I guarantee you are paying too much tax.

Our tax system is unbelievably confusing, incredibly convoluted, and increasingly chaotic. In a word, it's crazy. And it's only going to get worse.

Even as I write this, Congress and the President are going round and round about the next round of tax law changes. So what else is new?

But even with all its mind-numbing complexity, our tax code has many legal loopholes you can drive a truck through.

Here's a startling statistic to drive home the point: It is conservatively estimated that small business owners and self-employed people are overpaying their taxes by 160 billion dollars every year.

And the biggest cause of this situation is the simple fact that small biz owners and the self-employed are not using all the tax loopholes they are entitled to.

But you'll never figure out what those loopholes are by only spending a few hours, once a year, to the task of filling out the forms.

It's gotta be a year-round task. And you need to realize that some of the best tax-reduction strategies require some research on your part. You've got to do your homework, check things out, maybe even consult with a professional to make sure you're not missing something and that all your ducks are in a row.

Like any worthwhile goal, it takes time and energy.

In my experience, there is one small biz tax-reduction strategy that stands head and shoulders above all the rest: Choice of Entity.

Bear with me here, as I explain what I mean.

By "Choice of Entity", I'm referring to what type of business you own, from a legal standpoint.

Here are your choices:

Sole Proprietorship
Partnership
Corporation
Limited Liability Company

(Note: If you are self-employed and don't view yourself as owning a business, guess what: from a tax standpoint, as a self-employed person, you do own a business. It's called a Sole Proprietorship.)

The purpose of this article is not to tell you which entity is best for you and exactly how much money you can save in taxes by picking one of these entity choices.

I can't do that in a thousand words.

But what I can tell you right now is this:

Your Choice of Entity is the single-most important factor in determining your annual tax bill.

I can also tell you this: every year, thousands of small biz owners and self-employed people save literally thousands of dollars in taxes because they made a simple one-time change in their Choice of Entity.

Obviously, there are many factors that determine how much tax you pay: the accuracy of your record-keeping, how organized you are, your knowledge of all the many available tax deductions, etc.

But the most important factor of all is this: What entity type are you?

So, now that Tax Season is a not-so-distant memory and your mind turns to other, supposedly more important matters, my question to you is this:

How do you know that your current Choice of Entity is the best one for you?

Have you done an analysis of the pros and cons of each entity? Do you know what the tax consequences would be if your changed your Choice of Entity? Do you know what it takes to make a change from one entity type to another?

Let's say you are a Sole Proprietor: do you know how much tax you would have paid last year if your business had been a Corporation, a Partnership, or a Limited Liability Company?

These are not the kinds of questions you have time to address while frantically looking for lost receipts and filling out the tax forms on April 14th.

Sooner or later, you MUST turn your attention to the most important tax issue of all: Choice of Entity. And believe me, sooner is better than later. If you've made the wrong Choice of Entity, you are probably overpaying your taxes by thousands every year.

How do you get started researching the best Choice of Entity for your particular situation? Read on to find out.

PART FOUR:
Why the Most Important Business Decision You Probably Never Made is the Key to Paying Thousands Less in Taxes

Let's summarize what we've covered so far.

First, you can reduce your taxes immediately by putting those Tax Tidbits to use. Each one of these strategies is easy to implement and doesn't require any additional out-of-pocket expenses. You just have to do a little planning and a little record-keeping and presto, you've got several hundred or even several thousand dollars in your pocket:

	Estimated Tax Savings
Tax Tidbit #1:	$667
Tax Tidbit #2:	$900
Tax Tidbit #3:	$270
Tax Tidbit #4:	$200
Tax Tidbit #5:	$350
TOTAL	$2,387

Whoa -- two thousand, three hundred and eighty-seven dollars in tax savings! That's a lot of pizza in my house. (Obviously, your particular tax situation may result in a different amount of tax savings then the numbers cited in each Tax Tidbit; I'm just using these as conservative examples of the type of tax savings possible when these strategies are implemented. You could get more or less than this.)

Then, if we add to that the immediate tax savings of $1,750 from Section 179, now were up to $4,137. (I realize that the $1,750 would be saved even if you depreciate your equipment over 6 years, but then you have to wait 6 years to get the tax savings. How inconvenient is that?)

So, you've just saved over $2,000 or even $4,000 in taxes. How does that make you feel? Not bad, eh?

Well, I'm here to tell you that this is just the tip of the iceberg.

Saving $2,000 or $3,000 or even $4,000 per year in taxes is awesome -- but it's just the beginning. The five Tax Tidbits and the Section 179 Deduction are great -- they are perfectly legal ways for the average small business owner or self-employed person to put some "easy money" in your pocket.

But of all the tax reduction strategies available to you, they really are "small potatoes" when compared to the tax savings available to you when you make a change in your Choice of Entity, as explained in Part Three.

This is so important, let me say it again: Your biggest potential tax savings will result from doing a serious analysis of your Choice of Entity.

Let's review the possibilities:

Scenario #1: You are a Sole Proprietor.
This is probably the most common scenario for the new small business owner or self-employed person. And my experience is this -- most likely, you are a Sole Proprietor "by default", i.e. because you really didn't know any other way to run a small business.

And that's OK. You have to start somewhere, and if that's where you are, that's where you are.

But you've got to take a serious look at this: how much less tax would you pay if you formed a corporation, partnership or limited liability company? Do you have any idea? Probably not.

Now let's look at Scenarios #2, #3, and #4, which are really just variations of Scenario #1.

Scenario #2: You are a Partner in a Partnership. How do you know that this is the best Choice of Entity for you? Would you pay less tax if you were a corporation, LLC, or Sole Proprietor?

Scenario #3: You are a C Corporation. What would happen if you converted to one of the other entities?

Scenario #4: You are an S Corporation. What would happen if you switched to a C Corporation, LLC or Partnership?

Scenario #5: You are a LLC? How do you know that this is the best scenario for you?

I think you get the picture. You've got to do an analysis of the pros and cons of each entity.

And when I say that these other tax strategies, like the Tax Tidbits, are just the tip of the iceberg, here's an example to illustrate what I mean.

I have a client, let's call him Donald, who started a business about 4 years ago as a Sole Proprietorship. Like many new business owners, he didn't really know any

other way to do it. His brother-in-law told Donald, "Just keep it simple. Don't even think about anything complicated like a corporation. You have to pay a high-priced lawyer, fill out mountains of confusing paperwork, and you'll just end up spending money unnecessarily."

(Donald's brother-in-law, by the way, is a self-employed painting contractor, and of course, the "family authority" on the subject of taxes and Choice of Entity!)

Well, Donald had enough sense to come to me for help with his income tax return that first year in business. He ran a low-overhead service-oriented business and was immediately profitable. In fact, he was so profitable, he had to pay several thousands in taxes with his tax return.

I suggested to Donald that he form a corporation. After factoring in the additional legal and accounting fees needed to run a corporation properly, Donald would still save over $4,000 ***per year*** by operating as a corporation rather than as a Sole Proprietorship.

Now, what do you think Donald said to me when I told him about the four grand in tax savings?

"Well, that's a no-brainer. Let's do it." And I helped him set up his corporation. (Sure, there is some extra paperwork. But again, he still saved over $4,000 **after** paying the additional expenses required of a corporation.)

Now, there is no way I can sit here and tell you that you are going to save $4,000 every year if you form a corporation. I have no way of knowing that what is true for Donald is true for you.

But I can tell you that I've talked to enough small business owners like Donald to know that it would certainly be worth your while to check into it. Even if the tax savings was $3,000 or $2,000 or $1,000 -- wouldn't that be worth it?

Because once you've made a change in your Choice of Entity, and that change results in, say, $3,000 of tax savings in Year One, chances are that you will get that same tax savings in Year Two and Year Three and Year Four, and so on.

After five years, we're talking $15,000 here! Whoa --- see what I mean about "small potatoes" and "the tip of the iceberg"?

To begin your Choice of Entity analysis, you need to take action. Here's a simple 3-Step Plan to get started:

1. Contact your local tax professional.

If you already have an accountant, please go to the phone ***right now*** and make an appointment to discuss this with him/her.

At the appointment, tell him exactly what you want: You want help determining the best Choice of Entity for your situation.

You want to know how much tax you would pay if your business existed as each possible Choice of Entity. Example: You were a Sole Proprietorship in 2005. You know how much tax you paid in 2005 as a Sole Proprietor. Now you want to know how much tax you **would have paid** in 2005 if your business had been a C Corporation, an S Corporation, and a Limited Liability Company.

If any of these other entities would have paid less tax than the Sole Proprietorship, what would it take to make a change? What are the legal and tax requirements for making such a change? What would it cost to hire an accountant or an attorney to help you make the change?

2. Do some research yourself.

If you don't have a local tax professional, or if you feel that your local tax professional may not be qualified to do this type of analysis, then you may need to start the analysis yourself.

Here's a great place to start your research -- I've written an eBook for small business owners and self-employed people called the “Tax Reduction Toolkit: 29 Little-Known Legal Loopholes That Will Reduce Your Taxes By Thousands”. To get your copy, visit http://www.YouSaveOnTaxes.com/toolkit

Several of these "legal loopholes" deal with the tax advantages of the S Corporation, which is sometimes the best Choice of Entity for the small business owner/self-employed person.

Again, I can't guarantee that the S Corporation is the best entity for you, but it is for many, so I highly recommend that you check into it. The Tax Reduction Toolkit will give you an excellent explanation of why the S Corporation has the potential to reduce your taxes by many thousands of dollars.

The Toolkit includes $445 worth of tax consulting coupons, so you can get some professional input on your particular situation without spending an arm and an leg.

These coupons entitle you to do the following:

a) Send me up to four (4) previously filed tax returns (business or personal) for my review. When I analyze these returns, I'll be looking for ways to reduce your taxes, including the possible tax benefits of a change in your Choice of Entity.

b) Talk to me on the phone for 60 minutes about your tax situation. Pick my brain, ask all the questions you want. We'll go over your tax returns and look for any overlooked or missing deductions that could save you thousands.

Sound fair enough? Hey, you've got to start somewhere -- so why not start your research at http://www.yousaveontaxes.com/toolkit and get a professional analysis for less than the cost of dinner for two.

Oh -- I almost forget to mention that if I am unable to offer specific suggestions that reduce your taxes by at least $2,000 -- then I refund your purchase price. Fair enough?

For a more in-depth look at the tax advantages of incorporating, I've written a second eBook for Small Biz Owners and the Self-Employed called "Incorporation Tax Secrets Revealed" – http://www.YouSaveOnTaxes.com/secrets

This eBook explains the differences between the 3 types of corporations ("S" Corp, "C" Corp, and Limited Liability Company) and enables you to make a truly informed decision regarding which one is best for you. Believe me, when it comes to this Choice of Entity, one size does not fit all!

For many, the "S" Corporation is the best entity. For others, it's the "C" Corporation or the Limited Liability Company. In certain situations, it even makes sense to have more than one entity.

Incorporation Tax Secrets Revealed includes $340 worth of tax consulting coupons: a personalized Choice of Entity Analysis Certificate and a one-hour Choice of Entity Telephone Consultation.

Should you decide to form a corporation or LLC, here's a great way for Do-It-Yourself-ers to save hundreds or even thousands in lawyer fees – take a look at my eBook, "How To Incorporate Yourself For Free", available at http://www.YouSaveOnTaxes.com/howtoincorp

The purpose of the eBook is simple -- to show the typical Do-It-Yourself small biz owner or self-employed person how to form a corporation, all by yourself, without a lawyer, and without paying a dime in legal fees.

(Yes, it is legal to incorporate without a lawyer.)

Understand, of course, that this eBook is not for everyone. For many, hiring a lawyer to incorporate is the best way to go.

But if you like doing paperwork (or can at least tolerate it) and are willing to spend a few hours filling out government forms in order to save several hundred dollars, then this eBook is for you.

NOTE: These 3 eBooks are available separately, or as a 3-volume set at a substantial discount. I've bundled the 3 eBooks together into "The Ultimate Small Business Tax Reduction Guide – http://www.YouSaveOnTaxes.com/ultimateguide

3. Make a decision and implement it.

After consulting with your tax professional and after consulting with me (or both), make a commitment and go with it.

If you see the need to form a corporation or an LLC, do it! Don't put it off. Do it now. There is no better time than the present to dramatically improve your tax situation.

I have many great clients. And I truly enjoy working with them. And I've helped many small business owners and self-employed people go through this Choice of Entity decision. Those that take the time to do it never regret it. Most end up with thousands of dollars in tax savings for many years to come.

But occasionally I get a client like Tony, the typical small business owner who is just "too busy" running his business to deal with any extra paperwork. Tony came to me five years ago and I persuaded him to let me do the Choice of Entity analysis. He just shrugged his shoulders and said, "Sure. Whatever you say."

So I did the analysis and called him with the results. Tony could save over $3,600 per year by converting from a Sole Proprietorship to a Corporation. He liked the sound of that, and so made an appointment to get started with the paperwork.

But making the appointment is all Tony ever did. On the day of the appointment, Tony cancelled. Something came up.

A month later, he called to reschedule. And on the day of that second appointment, Tony cancelled. Something came up.

And on three more occasions, Tony has made an appointment to get his corporation started, and each time, he either cancelled or just didn't even show up.

I still do his tax return each year, and each year I remind him of the simple fact that he overpaid his taxes by $3,600 **each year** -- **for the past four years!** So now Tony has paid $14,400 more than necessary, just because he's too lazy to follow through on a simple one-time change in his Choice of Entity.

Which small business owner do you want to be: Donald or Tony? The choice is yours.

About the Author

Wayne M. Davies is a Tax Professional & Business Consultant serving small business and self-employed clients in all 50 states. Based in Fort Wayne, Indiana, he has been helping his clients reduce their taxes for the past 15 years. Wayne provides a complete line of accounting, payroll, tax preparation and tax consulting services for all business types: sole proprietorships, partnerships, corporations and LLC's.

He is author of 3 best-selling eBooks for Small Business Owners & The Self-Employed:

Tax Reduction Toolkit:
29 Little-Known Legal Loopholes That Will Reduce Your Taxes By Thousands (For Small Business Owners and Self-Employed People Only!)
http://www.YouSaveOnTaxes.com/toolkit

Incorporation Tax Secrets Revealed:
The Ultimate Small Business Tax Reduction Strategy.
http://www.YouSaveOnTaxes.com/secrets

How To Incorporate Yourself For Free:
Avoid Paying Hundreds in Lawyer Fees by Forming A Corporation In Any State All By Yourself
http://www.YouSaveOnTaxes.com/howtoincorp

Wayne's 3 eBooks are available separately, or at a substantial discount as a 3-volume set:
The Ultimate Small Business Tax Reduction Guide
http://www.YouSaveOnTaxes.com/ultimateguide

Wayne publishes two free monthly ezines for Small Business Owners and Self-Employed People:

Ezine #1:
"Make My Life Less Taxing"

. . . Dedicated to helping U.S. small biz owners & self-employed people pay the least amount of tax allowed by law . . . . and not a penny more.

Subscribe to "Make My Life Less Taxing" and receive a free 37-page report, "How Any Small Business Owner or Self-Employed Person Can Save Thousands In Taxes." This report includes chapters on: "4 Simple Steps To Reduce Your Taxes Now!"; "5 Common Tax Myths That Are Costing You A Bundle"; "How To Pass An IRS Audit With Flying Colors!"; and "How To Make Sense Out Of Nonsense: The Small Business Owner's Guide To The Wild & Wacky World Of Taxes".

You can subscribe by visiting http://www.YouSaveOnTaxes.com

Ezine #2:
Small Business Owner / Smart Business Owner

. . . Featuring marketing strategies and motivational insights to help you increase your profitability.

Subscribe to SBO/SBO and receive a free 32-page ebook, "How To Get More Customers In A Month Than You Now Get All Year."

You can subscribe by visiting http://www.MagneticMarketing.biz