Saving money on your taxes by organizing, planning, investing and giving.

By Loree Stevens Dodd

1. **Stay organized by creating a checklist of the tax documents that you had last year.**

**A.** Get a special envelope or box for your tax document and list and place it where you normally open the mail. When each document arrives, check it off the list, then place it in your box.

**B.** Run a trail balance, balance sheet, and income statement with a date range from Jan. 1st through Dec. 31st. **C.** Print out the tax organizer provided by your tax preparer on single sided paper when you make changes. If possible, use the binder or paper clips instead of staples. Get it to your tax person as early as possible. The less time it takes to prepare, the less they will charge you.

1. Should you claim a **home office** when you have a business?

**Regular metho**d: includes all the direct and indirect costs of your home office, like your payment for the mortgage, interest, tax, lights, etc., which are added together multiplied by the percentage of home office square footage, then divided by 39 years to compute the annual depreciation.

**(Total Cost\*(Office SF/Total Home SF)) /39 = Annual Depreciation Expense**

When you sell your home, the depreciated amounts will be “recaptured,” in other words, added back to the sales price of your home less the capital gains deduction of $250k (**S or MFS**) and $500k (**MFJ**) to determine your taxable capital gain.

**Simplified method:** home office square footage multiplied by $5.00; it cannot exceed 300 square feet, making the maximum deduction $1,500. There is no recapture of depreciation at the time of sale.

**Which method should you choose?** It really depends on if the regular method deduction will save you more now versus the tax that you will have to pay on capital gains in the future. It’s a good choice if you do not expect your property value to increase significantly and remain below the capital gains deduction. Keep records of your depreciation taken and provide it to your tax person; otherwise, they will charge you for the time spent going year by year calculating the recapture amount.

1. **Thinking about selling your vacation home?** Consider living in it for at least 2 of the past 5 years before you sell it. This will save you $250k for filing single or married filing separately or $500k for filing married in **capital gains tax.**
2. **Property taxes:**  It’s a good idea to pay your property taxes prior to the end of the year if you are taking the itemized deduction. You are only able to deduct a maximum of $10,000 per year on your primary residence. Years ago, people were waiting to pay their taxes the following year so they could maximize their savings. They pushed the expense into a year they expected have to high profits to double the deduction. The IRS has now limited the deduction to $10k per year.
3. **Depreciation :** During the first year of operation for equipment, vehicles, software, or other business assets, you can choose the depreciation method that will allow you to expense or capitalize their value. If you project higher sales in the future, it may be a better idea to use only straight-line rather than adding the Section 179 depreciation method (1.200k) and bonus depreciation, so you can spread out the deduction. Something to keep in mind is that you must make a profit three out of five years or the IRS will consider your business a hobby. They will go back to the first year that you started claiming business expenses, recapture them and then charge you the appropriate tax for the difference plus penalty and interest.
4. During the first year of business, you may want to choose the **standard mileage rate** **(SMRM)** method instead of the **actual expenses method** **(AEM),** even though the latter offers a bigger deduction. By doing this, you will be able to choose which method is best for your business each year going forward. Otherwise, the IRS will **lock you into the actual expenses method**. You must keep all of your receipts.

**SMR f**or 2024, the standard mileage rate deduction is 67 cents per mile. You multiply the number of miles driven by this rate and then by the % of business miles driven.

**AEM** adds all the actual expenses per year like gas, tolls, parking, insurance, oil changes, car washes, registrations, depreciation, then multiplies by the % of business miles driven.

1. If you are a sole proprietor or part of a partnership with your spouse, you can **pay your children** up to $14,600 each, then deduct the amount as a salary expense, and your child will get a full refund for all the income tax that you withheld because they are under the standard deduction.
2. **Invest in an Individual Retirement Account** (IRA) Plan: Traditional or Roth by December 31st for a tax write-off. **Traditional IRA:** your income will be reduced up to $7k if you are under 50 and $8k if you are over. You had to have earned at least the amount that you are contributing within the year.

**Roth IRA:** You will not benefit this year, but when you are 59 ½, all of the gains made on the funds invested in the plan will be tax-free.

1. **Donations:** Must be made by December 31st to a qualified organization. The value of the donation is equal to its fair market value or adjusted basis, which means if you repaired or added value to it. You will be limited to 60% of AGI for cash contributed and 50% of AGI for non-cash property. Unused donations are carried over 5 years.

A close up of a business card

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