Season 3 | Episode 17

There's Money to be Found in Tax Credits and Deductions

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CPA, Columnist, and Host

Gene Marks:
Hey, everyone, this is Gene Marks, and welcome to this week's edition of "On the Mark." On today's episode, I have got eight big pieces of tax advice to share with you. Some of these, I'd like to see you implement before the end of the year 2021, and a few of these are, actually, most of them will be relevant as well in 2022.

But, these are all ways for you to save taxes because remember, taxes are, what, 20, 30% of your income. I mean, no big deal, right? Something like the biggest expense that we have as business owners and as individuals as well. So, whatever we can do to strategize and save on our taxes is very important, and I've got some good, good tips for you.

Before we get to them, let me just remind you if you have any questions or if you need help, if you'd like to suggest future topics that will help you with your business, any kind of advice that you would like; Go ahead and visit us at payx.com/thrivetopics. That's P-A-Y-X dot M-E forward slash thrive topics. There's a form that you can fill out, and you can ask any question that you want, suggest future episodes that we can cover certain issues that may be impacting your business.

OK, so hey, let's get to taxes, shall we? I mean, I'm a CPA. This is right up my alley. This is stuff that I love to talk about, and I've got those eight things that I want to share with you.

So, let's talk about the first thing and the first thing is called the work opportunity tax credit. The work opportunity tax credit has actually been around for a number of years, but it's been extended through 2025 in one of the recent stimulus bills. It's really, really important for you, particularly if you're looking to hire employees in this time of shortages of labor and labor disruption.

The work opportunity tax credit is a $9,600 credit. You can take up to that amount on your taxes if you hire somebody that is either out of the military, off of welfare, out of prison, or who has been unemployed for six months.

If you are hiring a new employee that fits one of those categories: before you hire that employee, talk to your accountant. Have your accountant run the numbers to see what you're eligible for under the work opportunity tax credit. And you know what? You could be eligible for as much as $9,600 bucks.

But, say it's only $5,000 based on what you're going to pay that employee. Well, before you hire that employee, call them up and offer them a hiring bonus — maybe three grand — for coming and working for you. Hey, you're still $2,000 ahead.

The work opportunity tax credit is a way for you to get money from the government to help you pay for hiring bonuses but saving on your taxes. And again, it's per employee that you hire, and it goes all the way through 2025. So, take advantage of the work opportunity tax credit now and for the next few years.

Number two; the employee retention tax credit. I have done other podcast episodes on this. It is huge. This is a credit that you take against your payroll taxes. Your business to be eligible. There are certain eligibility requirements that you've been affected by COVID. Depending on the year 2020 or 2021, there are certain revenue requirements that you would have to meet in a quarter, or you would have to prove that your business has either been partially or fully shut down because of COVID.

If you meet those criteria and the credit lasts all the way through September 30 of 2021, although it does extend for the last quarter of the year if you're like a startup type of business. You can respond and file for this credit by amending your prior federal payroll tax returns. The credit itself is huge. In 2021, it could be as much as $7,000 per employee for a quarter, if you are eligible. And, if you are eligible and you're able to take the credit, you take it against the payroll taxes that you owe, and if the credit is bigger than the payroll taxes that you owe, the government will give you the difference back in cash.

Remember, even if you didn't take advantage of the employee retention tax credit, you can still go back and amend your payroll tax returns. If you are a Paychex customer or a prospective Paychex customer, talk to your Paychex representative because they have a great service that will help you file these returns and get the money back.

So, the work opportunity tax credit — big for hiring bonuses. The employee retention tax credit — big for getting money back on some payroll taxes that you paid in either 2020 or 2021.

The third big tax thing I want you to consider has to do with loss carrybacks. Thanks to one of the stimulus bills, you are able to one time carry back your losses if you incurred losses in 2020, 2019 or 2018, and you can carry that loss back three years. Now, the current tax code doesn't allow you to do this, but the stimulus bill has made your provision for you to do this this one time.

So, think about it. If you lost money in 2018 or 2019 or 2020, you can go back and amend your returns, carry that loss back up to three years, and if you made money in any of those three years and you paid taxes, you're going to get those taxes back in the form of a check. So, talk to your accountant. If you lost money in 2018, 2019 or 2020, carry back those losses and you can get a lot of cash back.

Number four; the section 179 deduction that has to do with accelerated depreciation. You can deduct up to one million dollars in capital expenditures right away in your first year of buying this capital equipment. This is furniture and fixtures, computers, equipment for your place, all of that kind of stuff.

The big thing about this Section 179 deduction is, you really don't even have to pay for the equipment right away. You can finance the equipment, but as long as you get it plugged in and operational by the end of the year, you can get the full tax deduction that year. So, I know there's just a little time left in the year, but if you've got time to make some capital purchases, do it and take the tax deduction before 2021. You can even finance. You don't have to pay it yet, as long as you put it into service.

The fifth tax deduction that I want you to be aware of are the charitable deductions. Again, thanks to the stimulus plans, you are allowed now in your business to deduct up to 25 percent of your income for charitable contributions to nonprofits. Twenty-five (25) percent. It's normally just 10%. And you can only do that in 2021. Starting in 2022, it goes back down to 10%.

And by the way, personally in 2021, you can take either a $300 or a $600 deduction if you're married filing jointly on your tax return above the standard deduction — one year only in 2021 for any charitable contributions. By the way, if you're involved in a charity or on a board of a charity, it is a great incentive to go out to try and raise some money because of all these special deductions. So, take advantage of the charitable contribution tax deduction.

Number 5 — 6. It has to do with student debt. Again, thanks to one of the stimulus provisions, you are now allowed to deduct up to $5,250 if you help an employee pay down any of their student loans. They don't get taxed on it and you get a deduction.

You don't have to do all that. It can be $1,000 bucks if you want or $2,000 bucks, but what a great incentive — a tax incentive — to help you provide a great benefit to your employees. Particularly for those younger employees that are buried under student debt, you now have the ability to do that. The loan repayment deduction, the student debt payment reduction, goes through 2025, as well. So, you've got a few years to take advantage of it. It doesn't have to be just this year. So, take advantage of student debt deduction.

Number seven has to do with 529 plans. If you haven't already set up a 529 plan in your business, you definitely should. Very inexpensive to get them set up and a great benefit to provide to your employees. Why? Because you or your employees can put money away after tax, but once it's put away after tax, it can grow tax-free and you can pull it out without any tax consequences as long as it's being used for higher-education expenses, private-school tuition or religious school tuition.

So, it's a great way to put money away after-tax, but then have a grow tax-free so that you can use it for future educational expenses.

So, we talked about the work opportunity tax credit. We've talked about the employee retention tax credit. We've talked about loss carryback — carrying it back three years. We've talked about taking big deductions on capital equipment up to more than a million dollars. You can you take advantage of those charitable deductions before the end of the year. They still exist after this year, but they're really big this year, you know, in 2021. I'm recommending that you help your employees out by paying down their student debt. You can get a deduction now for doing that and setting up a 529 plan. Really, really great stuff and a great benefit to provide.

One more tax advice that I have for you; Put your kids to work. Now, listen, I'm not telling you to put your six-year-old behind the phones or anything, okay, or your 10-year-old operating a forklift? But if your kid is old enough — middle school, high school — put them to work. You can pay them up to $12,000 a year and because of the standard deduction, they won't have to pay any taxes on it other than payroll taxes, and you get a deduction for doing so.

And, by the way, the kids don't need to be related to you. It could be kids of your employees in your business. But, don't forget, if people are looking for students and younger people are looking for work and you've got bona fide work to do and you want to pay them at a market rate, go ahead and employ them. It's a nice benefit to provide to your employees and it certainly is a great benefit to provide your kids. You get a deduction for it and they won't get taxed other than payroll taxes.

By the way, one little piece of advice, after you pay your kid for the work, take the check out of their hands and put it away in a 529 plan, please, because you know they're going to take that money and buy an XBox or something stupid with it, right? So, make sure that you're putting it away for their future education.

All right, that is my tax advice for today. I hope you enjoyed this. All really, really good stuff. I'll be writing and talking about all this stuff in 2022, but hopefully you can take some action. Talk to your accountant now about these things and make sure that you can take advantage in 2021 or 2022.

Again, another reminder if you want any help, advice, tips for running your business — if you'd like to suggest some topics for me to talk about to help you with — go to payx.me/thrivetopics. That's P-A-Y dot M-E forward slash thrive topics, and I'll be able to answer your question, maybe do an entire episode on it to help you run your business.

Hey, thanks, my name is Gene Marks. If you'd like to get in touch with me, I'm on Twitter @GeneMarks. I appreciate you listening to this week's edition of “On the Mark”, and we will see you again next week. Take care.

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