

Tax Strategy for Small Business Owners — Workbook

This workbook turns the course into your own written tax plan. Work through each section to choose an entity, build a deduction file, time a major purchase, and set your owner pay and quarterly process. Bring the completed worksheets and templates to your accountant before year-end so nothing gets left on the table.

Tax Foundations and Entity Structure

Map how your income is taxed today and decide whether your current entity is costing you money.

Exercise: Diagnose Your Current Tax Picture

Pull last year's return and your latest profit figure, then answer each prompt in writing. The goal is to see exactly which of the three taxes is hitting you hardest.

- What was your net business profit last year, and what is your projected profit this year?

- How much did you pay in self-employment or payroll tax, and what was your effective federal rate (total tax divided by income)?

- Which single tax is biggest for you right now: income tax, self-employment tax, or state income tax?

- If you do nothing differently, what is your estimated total tax bill this year?

Worksheet: Entity Decision Worksheet

Fill in the fields for your situation, then use the S corp break-even logic from the course: the election typically pays off above roughly \$80,000 to \$100,000 of profit once you subtract added compliance cost.
Current legal entity (sole prop / LLC / corporation)

Current tax classification (Schedule C / partnership / S corp / C corp)

Projected net profit this year

Estimated SE tax as a sole prop (15.3% on ~92.35% of profit)

Proposed reasonable salary if electing S corp

Estimated FICA on that salary (15.3% of salary)

Estimated added compliance cost (payroll + 1120-S + bookkeeping)

Net annual savings of S corp election (SE tax saved minus added cost)

Decision and target effective date

Checklist: Clean-Books Setup Checklist

- Open a dedicated business checking account
- Open a separate business credit or debit card
- Choose cloud bookkeeping (QuickBooks Online, Xero, or Wave) and connect bank feeds
- Set a recurring monthly reconciliation appointment in your calendar
- Adopt a written accountable plan if you elect S corp status
- Start a contemporaneous mileage log (MileIQ or paper)

Deductions That Move the Needle

Build a defensible deduction file and capture the high-value categories you are currently missing.

Exercise: Find Your Missing Deductions

Review your personal bank and card statements for the last three months and list every expense that is actually business-driven but you have been paying personally. Apply the ordinary-and-necessary test to each.

- Which subscriptions, software, or tools do you pay for personally that the business genuinely uses?

- What home office space do you use regularly and exclusively, and what is its square footage versus your home total?

- How many business miles do you drive per year, and are you logging them?

- Are there professional services, education, or insurance costs you have never deducted?

Worksheet: Home Office Method Comparison

Run both methods and keep the larger result. Renters with higher housing costs usually win with the actual method; owners with small spaces often prefer simplified.

Office square footage

Total home square footage

Business-use percentage (office ÷ total)

Simplified method deduction (square footage capped at 300 × \$5, max \$1,500)

Annual rent or mortgage interest

Annual utilities, insurance, and maintenance

Actual method deduction (business-use % × eligible home costs)

Method chosen and amount claimed

Worksheet: Income-Shifting Strategy Planner

Use this to evaluate the family-employment and Augusta-rule strategies before discussing them with your accountant. Only proceed where the work or business purpose is genuinely real.

Child to employ and their realistic job duties

Market wage rate for that work and projected annual wages

Estimated tax saved by shifting that income to a 0% bracket

Number of legitimate business meeting days at home this year (max 14)

Fair-market daily rental rate from a comparable venue quote

Total tax-free Augusta-rule rent (days × rate)

Checklist: Deduction Substantiation Checklist

- Save a digital receipt for every business expense (Expensify, Dext, or accounting app)
- Record amount, date, place, and business purpose for meals and travel
- Apply the 50% rule to business meals and 100% to qualifying travel transport and lodging
- Keep a contemporaneous mileage log with business purpose per trip
- Document meeting minutes and a venue comparable for any Augusta-rule rental
- Issue real paychecks and timesheets for any family members on payroll

Depreciation and Major Purchases

Decide how fast to deduct your big purchases and time them for maximum tax value.

Exercise: Plan a Major Purchase

Identify equipment or a vehicle you genuinely need in the next 12 months and work out the after-tax cost using the course frameworks. Remember: a deduction reduces tax, it does not make the purchase free.

- What asset do you need, what does it cost, and what is its MACRS class life?

- What is your marginal tax rate, and what would Section 179 or bonus depreciation save you this year?

- Is the asset over 6,000 pounds gross vehicle weight if it is a vehicle, and what is the business-use percentage?

- What is the true after-tax cost (purchase price minus tax saved), and is the asset still worth buying?

Worksheet: Section 179 versus MACRS Comparison

Compare immediate expensing against standard depreciation for one planned purchase. Confirm the income limit, since Section 179 cannot create a business loss.

Asset description and cost

Business-use percentage and depreciable basis

Projected business taxable income this year

Section 179 deduction available (up to basis and income limit)

First-year MACRS deduction instead (5- or 7-year class)

Bonus depreciation amount on any remaining basis (60% for 2024)

Marginal tax rate

Tax saved this year under each approach

Placed-in-service deadline (by December 31)

Checklist: Depreciation Decision Checklist

- Confirm the asset will be placed in service by December 31
- Verify gross vehicle weight rating on the door-jamb sticker for any heavy-vehicle claim
- Check that business use exceeds 50% to qualify for Section 179 or accelerated depreciation
- Adopt the de minimis safe harbor election for items under \$2,500
- Plan for depreciation recapture as ordinary income when you later sell the asset
- Confirm with your accountant that Section 179 will not exceed your income limit

Owner Pay, Retirement, and Your Accountant

Set a defensible owner-pay split, choose a retirement plan, and lock in a year-round tax process.

Exercise: Set Your Owner Pay and Retirement Plan

Benchmark a reasonable salary for your role and model the salary-to-distribution split, then layer a retirement plan on top. Save your benchmarking source in case the salary is ever questioned.

- What does a benchmark salary for your role and region look like (BLS, Glassdoor, or a salary survey)?
- Given your projected profit, what salary is defensible and what remains as distributions?
- Which retirement plan fits you best: SEP IRA, Solo 401(k), SIMPLE IRA, or defined benefit?
- How much can you contribute pre-tax, and does that keep you under the QBI phase-out threshold?

Worksheet: Salary, QBI, and Estimated Tax Worksheet

Use this to size your reasonable salary, your QBI deduction, and your quarterly set-aside in one place.
Projected net profit

Benchmarked reasonable salary and its source

Distributions (profit minus salary)

FICA on salary (15.3%)

Qualified business income and 20% QBI deduction estimate

Pre-tax retirement contribution (SEP / Solo 401(k))

Estimated total tax this year

Quarterly set-aside percentage (25-30%) and per-quarter dollar amount

Safe-harbor target (90% current year or 100-110% of prior year)

Worksheet: Accountant Briefing Sheet

Complete this before your November year-end planning meeting so the conversation is about strategy, not data entry.

Current and projected profit

Entity and proposed salary split to confirm

Major purchases planned and preferred depreciation treatment

Retirement contributions intended before year-end

Specific questions to ask the accountant

Records retention status (3 years minimum, 7 where losses or basis apply)

Checklist: Quarterly Tax Workflow Checklist

- Move 25-30% of profit into a separate tax savings account as income arrives
- Pay estimated taxes via EFTPS on the four quarterly deadlines
- Run payroll with quarterly Form 941 filings if you are an S corp
- Hold a midyear check-in to update profit and tax projections
- Schedule a November year-end planning meeting with your CPA or enrolled agent
- Confirm you meet a safe harbor (90% current year or 100-110% of prior year) to avoid penalties

Your Action Plan

1. Calculate your current effective tax rate and identify which of the three taxes hits you hardest
2. Run the entity decision worksheet and decide whether to keep your structure or elect S corp status
3. Separate business and personal finances and start monthly bookkeeping with a cloud tool
4. Review three months of personal statements and move every legitimate business expense into the business
5. Compare the simplified and actual home office methods and adopt the larger deduction
6. Choose one major purchase, run the Section 179 versus MACRS comparison, and time it before December 31
7. Benchmark a reasonable salary and set your salary-to-distribution split if you are an S corp

8. Open and fund a SEP IRA or Solo 401(k) to lower taxable income and protect your QBI deduction
9. Set a 25-30% quarterly tax set-aside and schedule the four estimated payments via EFTPS
10. Hire or brief a proactive CPA and book a November year-end planning meeting using the briefing sheet

