

✓ **14 Tax Mitigation Strategies for Business Owners (With IRS Code References Where Applicable)**

1. Maximize Retirement Contributions (Qualified Plans)

IRS Code: §401(k), §408(k), §412

Strategy: Contribute to tax-advantaged retirement accounts such as SEP IRAs, Solo 401(k)s, or Defined Benefit Plans.

Benefit: Contributions reduce current taxable income while allowing investments to grow tax-deferred.

Example: A business owner contributing \$66,000 to a Solo 401(k) could potentially reduce their taxable income by the same amount.

2. Section 179 & Bonus Depreciation

IRS Code: §179, §168(k)

Strategy: Deduct the full cost of qualifying assets such as equipment, vehicles, and software in the year of purchase.

Benefit: Avoid depreciation over time and receive immediate tax savings.

Example: A \$100,000 piece of equipment can be fully deducted in Year 1, reducing taxable income by the same amount.

3. Augusta Rule – Rent Your Home to Your Business

IRS Code: §280A(g)

Strategy: Rent your personal residence to your business for up to 14 days per year for meetings or retreats.

Benefit: The business deducts the expense while the homeowner receives tax-free income.

Example: Charging \$2,000 per day for 10 days = \$20,000 deduction to the business and \$0 reported income personally.

4. Employ Family Members

IRS Code: §3121(b)(3)(A)

Strategy: Pay your spouse or children reasonable wages for legitimate work in your business.

Benefit: Shifts income to family members in lower tax brackets and may reduce self-employment tax.

Example: Paying a child \$13,850 (standard deduction) results in zero federal income tax for the child.

5. Qualified Business Income (QBI) Deduction

IRS Code: §199A

Strategy: Pass-through entities (S-Corps, partnerships, sole proprietors) may deduct up to 20% of qualified business income.

Benefit: Direct reduction of taxable income for eligible business owners.

Example: A business earning \$200,000 in QBI may be eligible for a \$40,000 deduction.

6. Captive Insurance Company

IRS Code: §831(b)

Strategy: Form a small insurance company to insure your own business risks.

Benefit: Premiums are tax-deductible, and profits accumulate in the captive at a favorable tax rate.

Example: A company pays \$500,000 in premiums to a captive, deducting that amount while building a tax-efficient asset.

7. Accountable Reimbursement Plans

IRS Guidance: IRS Publication 463

Strategy: Reimburse employees or yourself for business-related expenses under an accountable plan.

Benefit: Reimbursements are not counted as employee income but are deductible to the business.

Example: Mileage, travel, home office expenses can all be reimbursed without triggering payroll taxes.

8. Buy-Sell Agreements Funded by Life Insurance

IRS Code: §101(a), §264

Strategy: Fund a buy-sell agreement with life insurance to enable a smooth transfer of ownership at death or exit.

Benefit: Life insurance proceeds are generally income-tax-free and provide liquidity when it's needed most.

Example: \$2 million policy used to buy out a deceased partner's ownership shares.

9. Premium Financing for High-Value Life Insurance

IRS Code: §264, §101(j)

Strategy: Use borrowed funds to pay premiums on large permanent life insurance policies (e.g., IUL or Whole Life).

Benefit: Obtain significant death benefit or cash value with minimal capital outlay.

Example: A \$10 million policy financed with \$250,000 out-of-pocket may support estate or succession planning.

10. Cost Segregation for Real Estate Owners

IRS Code: §168(e); IRS Audit Technique Guide on Cost Segregation

Strategy: Reclassify components of a commercial or rental building into shorter depreciation lives (5, 7, or 15 years).

Benefit: Accelerates depreciation, increasing deductions and improving cash flow.

Example: A \$1 million commercial building could yield \$150,000–\$250,000 in first-year deductions after a cost seg study.

11. Executive Bonus (Section 162 Bonus Plan)

IRS Code: §162

Strategy: A business pays a bonus to an executive or key employee that is used to fund a permanent life insurance policy.

Benefit: Bonus is deductible to the business; the employee owns the policy.

Example: A \$50,000 bonus used to purchase a policy that provides retirement benefits and death benefit protection.

12. Roth IRA Contributions & Conversions

IRS Code: §408A

Strategy: Contribute after-tax funds to a Roth IRA or convert pre-tax funds via Roth conversion.

Benefit: Tax-free growth and tax-free withdrawals in retirement; no required minimum distributions.

Example: A \$6,500 contribution grows to \$100,000 tax-free over time.

13. Backdoor Roth IRA

IRS Code: §408A, §408(d)

Strategy: Make a non-deductible contribution to a traditional IRA, then convert to a Roth IRA.

Benefit: Circumvents income limits for Roth IRA eligibility.

Example: A high-income earner contributes \$6,500 to a traditional IRA and converts the amount to a Roth IRA with no tax due if no other pre-tax IRAs exist.

14. Negative K-1 Strategy

IRS Guidance: Partnership Tax Reporting

Strategy: Use partnership losses (negative K-1) to offset other passive or capital gains income.

Benefit: Reduces current taxable income and may help manage tax brackets.

Example: A \$50,000 loss from a syndicated real estate investment offsets \$50,000 in capital gains, eliminating taxes on the gain.