



## **Tax Tips and Traps for Entrepreneurs**

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### **ASK QUESTIONS?**

**Yes, It might be a dumb question,  
but you still need the answer.**



### **ARE YOU AN**

**“Entrepreneur?”**



**(1) Choice of Entity/Structure**

**(2) Tax Tips**

**(3) Tax Traps**

## Choice of Entity

### ■ Limited Liability Company (LLC)

- Tax Neutral – A “flow-through” entity
- All Income is self-employment taxed
- Should be used to own property that might appreciate
- Can allocate taxable income among owners different than membership ownership percentage

## Choice of Entity

### ■ S-Corporation

- Tax Neutral – A “flow-through” entity
- Reasonable Salary is employment taxed
- Distributions taxed as ordinary income
- Never should be used to own property that might appreciate
- Cannot allocate taxable income different than stock ownership

## Choice of Entity

### ■ C - Corporation

- Double Tax – Corporation pays tax and then shareholders pay tax on dividends
- Salary is employment taxed
- Distributions taxed as dividends
- Never should be used to own property that might appreciate
- Cannot allocate taxable income different than stock ownership

## Tax Tips

### ■ Keep Good Accounting

- Protects Your Deductions
- Identifies Profitability (and taxes due)

## Tax Tips

### ■ Health Insurance for the Sole

- Employ your spouse - Save the employment tax
- Dental/Optical Insurance pays for itself
- Insurers in NC are required to insure "small groups"  
(may have to be an S-Corp if you are a start-up)
- Medical expense reimbursement plan

## Tax Tips

### ■ Make it Deductible!

- Conference = Family Vacation (if no extra expense)
  - Drive instead of fly
  - Stay in a suite or vacation rental
- Business Lunch (50% deductible)
- Entertainment (50% deductible)
- Child care reimbursement plan

## Tax Traps

### ■ Employment taxes

- Half of it is not your money!
- Penalties and interest add up fast
- Penalties are not deductible
- IRS/NCDOR will shut you down
- Personal Liability
- Not Dischargeable in Bankruptcy

## Tax Traps

### ■ Estimated Taxes

- Due Quarterly, with interest penalty
- April 15<sup>th</sup> comes up fast
- File, even if you cannot Pay!
- Installment Agreement

## Tax Traps

### ■ Automobile Expense

- Mileage v. Actual Cost of ownership – How long are you going to keep the vehicle?
- Proof of Expenses
- Sell v. Trade-In
- Make sure you qualify if you are counting on a full write-off
- Phantom Expense and then . . . Phantom Income

## Tax Traps

### ■ Employee v. Sub-Contractor

- Does she qualify to be a sub-contractor
- Get it in writing (and get the SSN)
- Issue the 1099
- If you don't then (1) reclassification as employees or (2) no deduction

## Tax Traps

### ■ Loans from Your Company

- Document the loan and make the payments
- No Documentation and Payment = re-characterization as dividend (C-Corp) or distribution in excess of basis (LLC or S-Corp) and possible penalties or even criminal fraud charges
- Distributions from LLCs are best if you are personal liable for the debt

## Tax Traps

### ■ Do not Trust the IRS/NCDOR!

- If they show up, then they are not there to help
- If they read you your right, then shut up
- Get professional counsel



## Good Luck!

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