

## Tax Physical

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### **Definition:**

An analysis of current and potential future tax obligations of a business and the business owner.

### **Benefits:**

Businesses and business owners are subject to a myriad of income, property, payroll, sales, franchise, excise, gift and estate taxes assessed by federal, state, county and city governments. The number of opportunities to reduce the tax burden is virtually unlimited. Various strategies can be employed to increase the after tax cash flow and net worth of the business owner. The structure of a business combined with the method by which the owner is compensated can greatly affect the amount of income tax paid. Advance planning for certain types of transactions can greatly reduce or eliminate certain types of tax. Strategies can be employed to defer the payment of some taxes, which improves a business's cash flow. Certain business activities can be identified and structured to qualify for various tax credits. Succession strategies can be implemented to allow the owner to transfer wealth to the next generation that reduce or eliminate gift and estate taxes. We may identify opportunities to file amended returns and recapture taxes previously paid.

### **Process:**

- Meet with the client
- Gain an understanding of the client's business operations and future plans
- Review recent tax returns
- Prepare a report of potential tax saving strategies
- Meet with the client to explain and quantify each strategy
- Assist the client with implementing the strategies they elect to pursue

### **Case Example:**

Two related business entities were owned and managed by spouses and one of their children. The business had grown into an extremely successful enterprise with the potential to expand to other locations across the country. We suggested that they elect to be taxed under Subchapter S in future years which will reduce current income tax burdens as well as reducing by more than half the potential tax on the future sale of the business. We restructured the shareholder compensation, saving about \$20,000 in payroll taxes annually and freeing up working capital on the average of about \$12,000 per month. We identified opportunities within their existing 401(k) plan to increase shareholder contributions by more than \$60,000 as well as skewing contributions to three key non-shareholder employees. We also identified the need for a comprehensive estate and business succession plan as well as structural changes that should be made in preparation for the business to undergo its geographical expansion.