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## Meet the Trainer



Keep More Commissions with Tax Breaks



# Lesson 4: Part 2

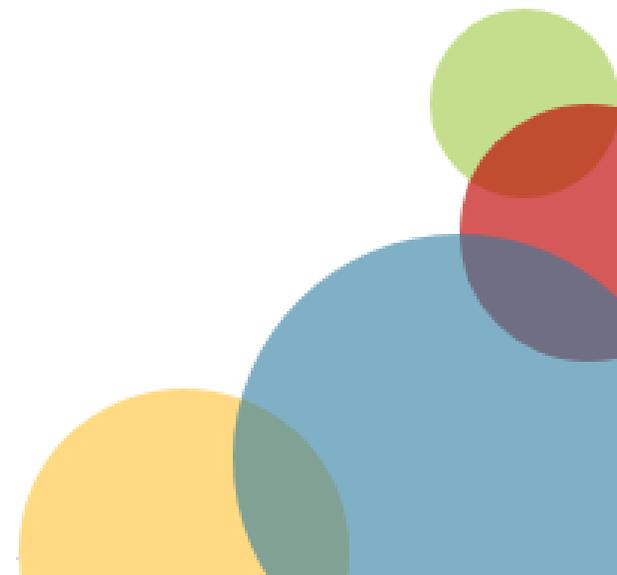
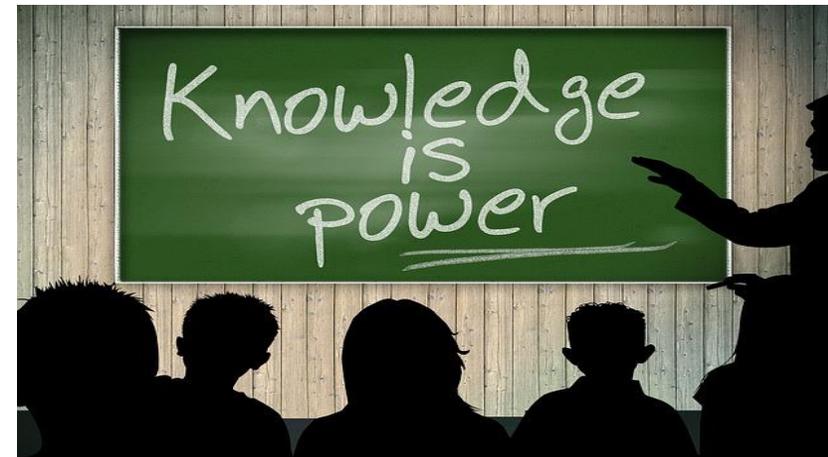
## Hiring Relatives & Medical Reimbursement Plans

### Strategies for Employing Your Spouse in Your Schedule C Business

#### Strategy 3: Establish an Educational Benefit Program for Employees

**Deductible Expenses:** Just as you can for yourself, you may deduct the ordinary & necessary expenses you pay for education & training of your employees (books, tuition, fees, travel, transportation, lodging, etc.). See also Appendix F for Hope scholarship credits, lifetime learning credits, & student loan interest deductions.

**Education deduction rule:** Education of employee/spouse must be related to your employee's current job. It must improve or maintain their skills. To ensure deductibility, courses should not end in an undergraduate degree or qualify them for a new trade or profession.

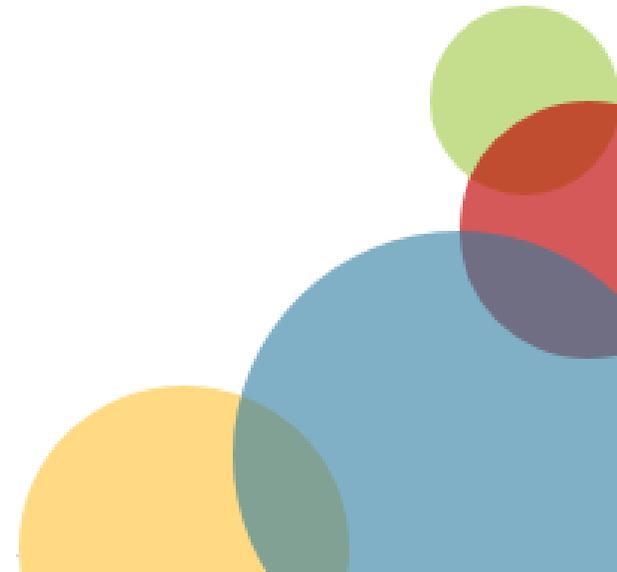


## **Strategy 4: Establish a Supper Money Allowance for Hard Working Employees**

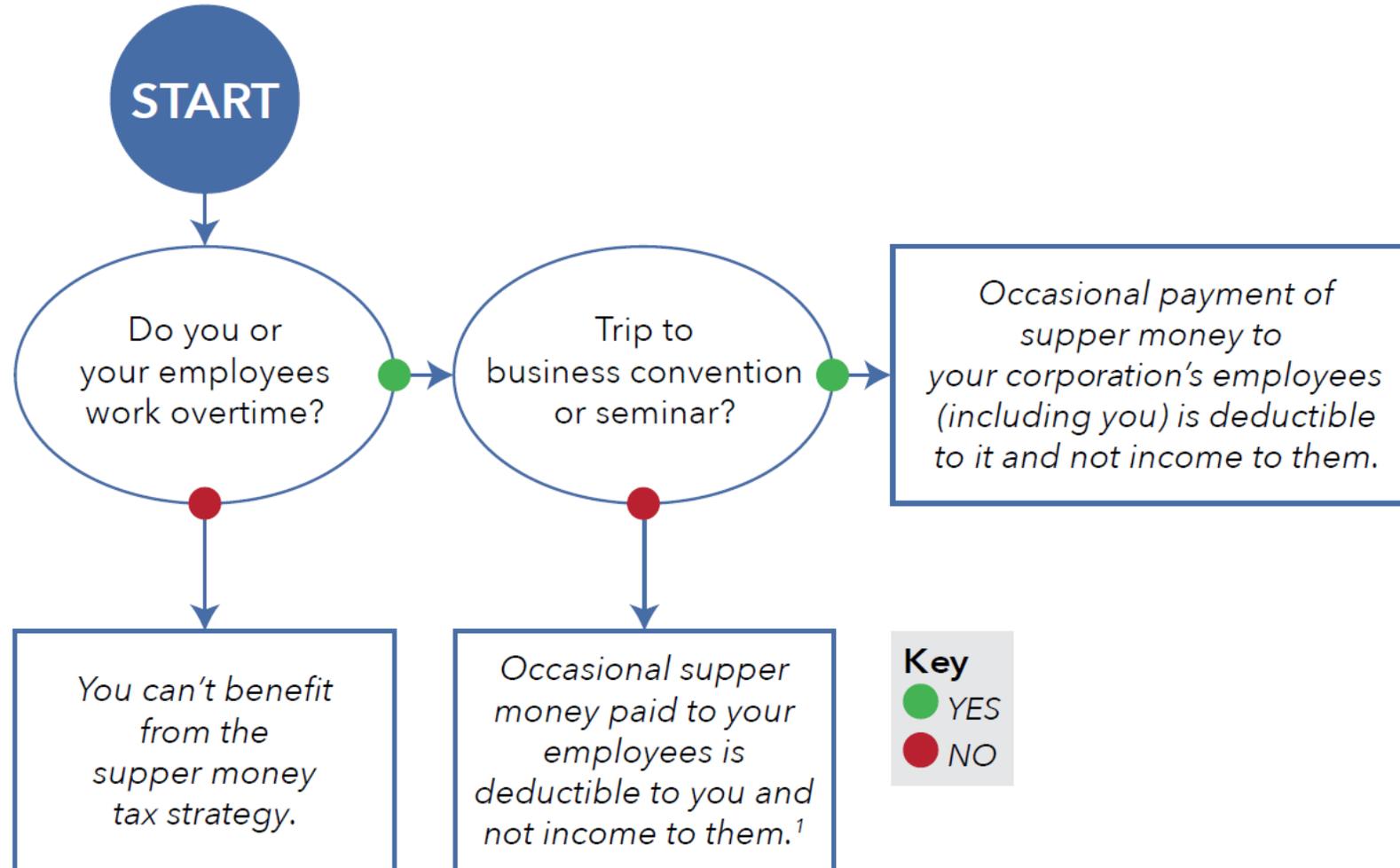
**Proprietor not eligible:** Schedule C taxpayers are not eligible.

**Employees are eligible:** Tax law allows deductions for supper, taxi fare, and other personal expenses when employees work late due to extraordinary demands of business that are occasional & enable employee to work overtime.

**Example:** You pay \$20 as a supper money allowance whenever an employee works more than 10hrs. 1 min. during a workday. Jackson works 12 such days during the year. Jackson receives \$240 & you deduct \$240. This would be 100% deductible.



## Flowchart for Determining If You Can Benefit From the Supper Money Tax Strategy





## **Strategy 5: Set Up a Qualified Plan and IRA (Recommend Roth 401k)**

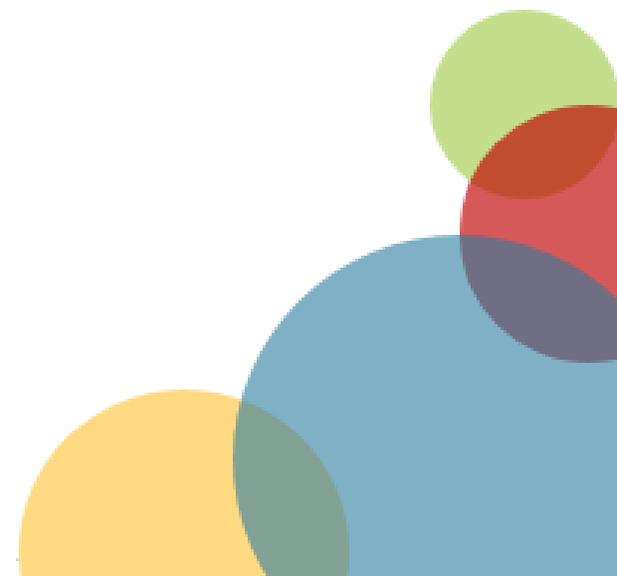
Without question, if I had to pick the best strategy that you can do to reduce your taxes, I would recommend setting up a qualified SEP, Simple IRA, Roth IRA and an Education IRA, or profit sharing plan. - Sandy Botkin

The type of plan that best suits you will vary depending on your income and if you have employees

## **Strategy 6: First \$6,350 is Tax-Free to Child**

In 2017, standard deduction is \$6,350 & the dependency exemption is \$4,050. Therefore, the first \$6,350 is tax-free to child & zero if claimed as a dependent by another. They then pay tax on the first \$9,375 in taxable income at the 10% rate.

**Example:** You pay child \$6,350 in wages for 2017. you can deduct \$6,350 in reasonable wages on your Schedule C. You pay no SS or unemployment taxes if <18. Your child reports \$6,350 as income from wages on IRS form 1040 & then deducts \$6,350 as his/her standard deduction.





## Strategy 6 Continued:

**Subsidy:** If you are in the 35% bracket, the \$6,350 produces a tax refund/savings of \$2,222.50 from federal taxes plus potential savings of \$184 from Medicare surcharge. Above \$6,350, you save at a 25% rate (35%-10%).

**All relatives must perform some real work to be able to hire them & deduct their wages.**

**Perspective:** In effect, Uncle Sam underwrites the education, weddings, and other uses to which your children put their money.

**Why age 7 and over:** The “age 7 and over” comes from the Eller case. IRS contested employment of a 7-year-old but lost in court. Therefore, the IRS agrees that you can hire a 7-year-old.

**Setting your child’s salary:** Unlike your spouse, pay your child as much as possible because there’s no payroll tax penalty on the wages. Salary/wage must be reasonable to be deductible. This means their wages must be similar to what others are paid in that profession under similar circumstances, services, and experience (see previous lesson for 10 factors of reasonableness).

