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5 Strategies to Minimize Taxes and Stop Your Business From Bleeding Money

Most business owners don't realize where they are losing money each year by not properly addressing their tax planning needs. You will often hear that everyone should "pay their fair share in taxes". What does that mean? If there are legal ways for you to avoid (not evade) paying taxes, we consider it fair that you implement strategies to do just that.

Here Are 5 Strategies to Minimize Taxes

There are many ways to lower your income tax bill as well as future estate taxes. The following are strategies that entrepreneurs tend to consider first and benefit the most from.

1. Use Qualified Retirement Plans

Money put into a qualified retirement plan is tax-deductible when you fund it and grows tax-deferred (you don't pay tax on the gains each year). For various reasons, not all business owners set up qualified retirement plans. Among those who do establish such plans, the common tendency is to go with a defined contribution plan—such as the well-known and highly familiar 401(k) plan.

However, that could be shortsighted. Defined benefit plans—or DB plans—might do a much better job for business owners. One big reason: **DB plans can allow business owners to put in a lot more money.**

Pro Tip – One other consideration is to use a combination of a 401(k) plan and a Defined Benefit plan together. This gives you the opportunity to reduce your tax burden today by deferring taxes through the DB plan while also utilizing the tax-free nature of the Roth 401k.

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2. Use Captive Insurance Companies

A captive insurance company (aka a “captive”) is a closely held insurance company set up to insure the risks of the parent company. The owner of the parent company wholly owns the captive insurance company. This means the business owner controls the captive’s operations—including underwriting, claims decisions, and the investment strategy. **The underlying reason to use a captive insurance company is *risk management*.**

There are different types of captive insurance companies that are appropriate for various business scenarios. In all cases, however, entrepreneurs can use captives to reduce income taxes. Under the right conditions, the premiums paid into a captive insurance company can be tax-deductible. Your company is then able to get a current-year write-off, even though losses may never occur.

Pro Tip – The services of a high-quality accountant can help you get the most from your
possible deductions.

3. Minimize Estate and Capital Gains Exposure On the Sale of Your Business

There’s also the issue of avoiding capital gains taxes. This is often a big goal when entrepreneurs sell their businesses. Too often, however, entrepreneurs wait until just before the sale to think about capital gains avoidance—at which point it’s generally too late. Instead, consider tax mitigation strategies well before the sale of a business or any appreciated asset.

Here are 4 Pro Tips to help your process:

1. **Irrevocable Trusts** - You can establish an irrevocable trust and gift shares of the business to the trust. Often the primary beneficiaries of the trust will be children and grandchildren. By gifting the shares to an irrevocable trust, you are removing these assets from your estate, which would reduce your estate tax exposure. This works very well if you already have built wealth outside of your business or know with good certainty that you will only need a portion of any future sale proceeds to support your retirement needs.

Keep in mind that by gifting to an irrevocable trust, you are giving up any income and control associated with those shares so this needs to be considered as a part of the planning process. Assuming you have done adequate planning to know that the net proceeds outside the trust will more than meet your needs, you will help your estate avoid future estate taxes by having the growth in the value of the business that occurs after the gift take place outside the estate.

2. **Charitable Trusts-** If you gift some (or all) of the appreciated equity in your business to a charitable trust and the trust sells it, the capital gains taxes on the equity will be eliminated. A percentage of the money in the trust can also be used to provide you (or someone you designate) with an income stream. Also—and perhaps most important—a nonprofit of your choosing will end up getting funding.

   The upshot: Charitable trusts are very powerful tools for entrepreneurs because they're one of the few ways to eliminate capital gains when selling appreciated assets, such as a business. They're also a way for entrepreneurs to provide money to loved ones and charitable causes they care about.

3. **Employee Stock Ownership Plan (ESOP)**- If your company is structured as a C Corporation, there may be opportunities to defer the capital gains tax on the sale of your business through the use of an ESOP. There are particular rules within the tax code that provide incentives to promote employee ownership of private businesses. Through what is called a *1042 Exchange*, you can defer part (or all) of the capital gains tax into the future. This is a complicated strategy that requires significant planning but is worth a look for the right types of businesses.

4. Use Tracking Partnerships

Within the business world, disharmony among family members or unrelated business partners can also mean a higher tax bill if the owners are forced to divide assets among its members. Through the use of sophisticated partnership structures, entrepreneurs can structure a division of their companies, eliminating capital gains taxes at that time.

As a general rule, any asset can be contributed to a partnership and can be distributed from a partnership to a partner, tax-free. There is no need for disgruntled partners to continue to work together—and they pay taxes only on the businesses they control.

Finally, there are estate taxes. If you're really successful, you might create enough personal wealth that you'll owe estate taxes when you die. But with careful and thoughtful wealth planning, you may be able to significantly reduce—and maybe even eliminate—future estate taxes.

5. Work with a high-quality tax professional

All of these types of tax avoidance approaches are called "bright-line transactions." That means there's no question about their legality, as they're clearly specified in the tax code. Moreover, every knowledgeable and capable tax professional—lawyers, accountants, wealth managers, and the like—should know about these and other ways to potentially help you legally avoid or reduce taxes.

The catch, however, is working with a knowledgeable and capable tax professional.

The tax professionals you want to work with will not only be very technically adept, but will also seek to truly understand you—your personal and professional objectives and dreams, concerns, and anxieties. Armed with an in-depth understanding of your world, a high-quality tax professional can work with you to design and implement solutions that are best suited to serve your particular situation in terms of tax mitigation.

Important: High-quality tax professionals all have access to the same legal tax mitigation strategies. Because of the formal government-created tax code, no strategies are secrets known only to a few. Indeed, if someone claims to have a proprietary tax strategy, it's a potential red flag that he or she could be veering into tax evasion territory. At a minimum, you should probably get a second opinion on that strategy's legitimacy.

Next Steps

While tax evasion is illegal, avoiding taxes using proven legal strategies vetted by top tax professionals is the best way to reduce the taxes you pay. **However, it is always important to view tax planning strategies as a part of your entire wealth plan.**

Going through a *stress testing process* with Konvergent Wealth Partners gives you an opportunity to put your financial, tax, and legal strategies and plans through our paces. This way you can determine if we are set up to deliver the results you want and more successfully navigate the challenges you are facing today.

Are you doing everything you can within your business and personal finances to avoid taxes and maximize cash flow? Take the steps you need now to advance the value of your business — for today and for the future.

Fast track your success, eliminate the mistakes, and begin capitalizing on the opportunities in front of you. Start the Konvergent Business Accelerator Process today for free!

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You will come away with an actionable plan for your business and personal planning that you can set in motion immediately. This process alone is worth more than $5,000 of time and resources, but Konvergent is offering this complimentary call to you at no-cost.

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Start advancing your wealth today

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