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## Tax-Saving Tips

### Almost the Last Chance to Claim the 2021 Employee Retention Credit!

If your business has not yet claimed the 2021 Employee Retention Credit (ERC), you still have time—but you must act soon.

#### What Is the ERC, and How Much Can You Claim?

The ERC is a refundable tax credit designed to support businesses that retained employees during the COVID-19 pandemic. For the 2021 tax year, eligible businesses can claim up to \$7,000 per employee per quarter for the first three quarters—a total of up to \$21,000 per employee.

For example, if your business qualifies and has 10 eligible employees, you could receive up to \$210,000 in refundable tax credits.

#### Who Qualifies?

Your business may qualify if it meets one of the following conditions for Q1, Q2, or Q3 of 2021:

- Significant decline in gross receipts – Your business experienced at least a 20 percent decline in gross receipts compared to the same quarter in 2019.
- Full or partial suspension of operations – Your business faced a federal, state, or local government-ordered suspension of operations due to COVID-19 restrictions.
- New businesses (recovery start-up businesses) – If you started your business after February 15, 2020, you may qualify for a credit of up to \$100,000.

#### Why You Must Act Now

The ERC is claimed by filing an amended payroll tax return (Form 941-X) for the relevant quarters. The **deadline** to file your 2021 ERC claims is **April 15, 2025**—and this date is fast approaching.

Many businesses have overlooked or misunderstood the ERC, assuming they do not qualify or it's too late to apply. Even if you received a Paycheck Protection Program (PPP) loan, you may still be eligible for the ERC if you don't use the same wages for both programs.

## Time Is Running Out

If you are eligible for the 2021 ERC, you could have substantial money on the table. The IRS deadline to file amended payroll returns is April 15, 2025, and we strongly recommend beginning the process as soon as possible.

## Beware of UBIT Lurking in Your IRA—It Causes Double Taxes

Do you own a traditional IRA, Roth IRA, SEP-IRA, or SIMPLE IRA? Usually, the income earned within these accounts is tax-free. This applies to common investments such as stocks, bonds, mutual funds, ETFs, CDs, and Treasury bills.

But if your IRA makes alternative investments, it may be subject to a special tax called the unrelated business income tax (UBIT)—and that's true even if it's a Roth IRA.

### When Does UBIT Apply?

**Investing in active businesses.** If your IRA invests in an S corporation, a limited partnership, a regular partnership, or an LLC engaged in an active business, it may owe UBIT. This does not apply to investments in C corporations because such corporations pay their own taxes.

A common example of a UBIT-generating investment is an investment in a master limited partnership.

**Using debt financing in a self-directed IRA.** If your self-directed IRA buys real estate or other assets using debt, it may owe the UBIT on its unrelated debt-financed income.

For example, if your IRA buys a \$500,000 rental property with \$250,000 of debt, 50 percent of the rental income is subject to UBIT.

## How UBIT Works

**Tax rates.** UBIT is taxed at trust tax rates, reaching the top 37 percent bracket at just \$14,450 of taxable income.

**Exemption.** Each IRA gets a \$1,000 exemption from UBIT annually.

**Filing requirements.** If an IRA generates more than \$1,000 in unrelated business taxable income, it must file Form 990-T electronically and the IRA (not you personally) must pay the tax. The IRA custodian handles this filing separately. It's not part of your personal tax return.

**Double taxation for traditional IRAs.** A traditional IRA paying UBIT faces double taxation—first at punitive trust rates and then at ordinary income rates when you, the traditional IRA owner, withdraw funds.

### Key Point

IRAs should generally avoid investments that generate UBIT.

## Heavy Vehicle + Deductible Home Office = Major Tax Savings

If you are considering purchasing a business vehicle, you may be eligible for significant tax deductions, especially when combined with a qualifying home office. Here's how:

### Heavy Vehicle Deductions

In 2025, businesses can take advantage of:

- Section 179 expensing – Deduct up to \$1,250,000 of qualifying business equipment, including heavy vehicles. SUVs

are subject to a \$31,300 limit, while pickups and vans meeting specific criteria are not.

- Bonus depreciation – Claim 40 percent first-year depreciation on a qualifying heavy vehicle.
- Business-use requirement – You must use the vehicle more than 50 percent for business to qualify for these deductions.

A “heavy” vehicle has a gross vehicle weight rating (GVWR) of over 6,000 pounds. Certain SUVs, pickups, and vans qualify, but lighter vehicles are subject to much lower annual depreciation limits.

## Home-Office Deductions

A deductible home office that meets the principal place of business test converts commuting miles into business miles, making it easier to meet the more-than-50 percent-business-use test.

For your home office to qualify as your tax code–defined principal office, you must use it regularly and exclusively for your business, and the home office must serve as

- your primary income-generating space, or
- the location where you perform substantially all your administrative tasks.

## Example of Tax Savings

A \$90,000 heavy SUV used 100 percent for business could generate \$61,824 in first-year deductions, while with a qualifying pickup truck, you could deduct the entire \$90,000 in Year One under Section 179.

## For Corporate Owners

If you own the vehicle personally but operate as a corporation, ensure your corporation reimburses you for business use to capture the full tax benefit.

## How to Correctly Pay Yourself and Take Cash from Your Business

A common question among business owners is how to pay themselves from their businesses properly. The correct method depends on your business structure, so I wanted to give you this quick guide to help you navigate this issue.

### Sole Proprietors and Single-Member LLCs

- You cannot be on payroll. Instead, you take owner’s draws as needed.
- You report net earnings on Schedule C of your personal tax return.
- You pay self-employment taxes (15.3 percent) on self-employment net income.

### Partnerships and Multimember LLCs

Partners cannot receive W-2 wages. Instead, they receive:

- guaranteed payments for services, taxed as income and subject to self-employment tax, and
- profit distributions, which are generally subject to self-employment taxes (except for passive limited partners).

Cash withdrawals are made through partner draws or profit distributions per the partnership agreement.

### S Corporations

- You must pay yourself a reasonable salary as an employee via W-2 wages, which are

subject to FICA taxes (15.3 percent, split between you and the corporation).

- Any additional profits are taxed to you personally but can be distributed tax-free.

## C Corporations

The corporation pays taxes at a flat 21 percent rate. You can receive compensation in two ways:

- W-2 wages, subject to payroll taxes, or
- dividends, which are taxed twice—once at the corporate level and again at your personal level.

## Don't Cheat Yourself: Get Partner-Paid Expenses Right

If you are a member of a multimember LLC taxed as a partnership (as most are) or a traditional partnership, you may sometimes pay for business expenses out of your pocket. These expenses can include travel and meals, car expenses, continuing education, professional dues, and home office costs. There are two ways to handle these payments:

- the LLC/partnership can reimburse you, or
- you may be able to deduct them on your personal tax return.

## Reimbursement by the LLC/Partnership

If your LLC/partnership reimburses you, the payment is (a) tax-free to you and (b) deductible by the LLC/partnership, provided that

- the expenses qualify as business operating expenses,
- you adequately document the expenses, and

- you submit them for reimbursement in a timely manner.

## Deducting Unreimbursed Expenses on Your Personal Return

If your LLC/partnership does not reimburse certain expenses, you may be able to deduct them on your tax return—but only if your LLC/partnership has a formal policy of not reimbursing those expenses. This policy must be

- stated in the LLC/partnership agreement or another written document, or
- established as a consistent routine within the business.

Your LLC/partnership determines which expenses it will or won't reimburse.

If needed, the LLC/partnership can amend its agreements to formalize your reimbursement policy.

This amendment must be made by the due date of the LLC/partnership tax return for the year (excluding extensions) and will apply to the entire tax year.

## How to Claim the Deduction

You deduct unreimbursed expenses on IRS Schedule E. This deduction reduces your taxable income for income tax and self-employment tax purposes.

## What's the Best Approach?

In most cases, getting reimbursed by the LLC/partnership is the better option. But situations exist where members/partners prefer not to use LLC/partnership funds for these expenses.