BY PHIL SASSO
CONTRIBUTING EDITOR

Phil Sasso is president of Sasso Marketing Inc. (sassomarketing.com), a technical marketing agency specializing in tools and equipment. Subscribe to his free marketing tips at philsasso.com/blog

The taxman cometh: Are you ready for tax season?

How to keep more of what you make, and make more of what you keep.

As a tool dealer, it's not about how much you earn, it's about how much you keep. I wish I could take credit for that thought, but it's been around forever. And, in light of recent federal income tax changes, it's never been more relevant than today.

Remember: No one has an obligation to pay more in taxes than he or she legally owes.

"Anyone may arrange his affairs so that his taxes shall be as low as possible," Judge Learned Hand (1872–1961) famously said. "He is not bound to choose that pattern which best pays the treasury. There is not even a patriotic duty to increase one's taxes." Hand was one of the longest serving and most quoted U.S. Federal Judges.

To get a deeper insight on tax strategiesI talked to a long–time friend and client, Gregory Fydryck, a CPA and tax advisor based in Schiller Park, Illinois.

Here's the obligatory disclaimer: I am not a tax expert. This article is for informational purposes only. It should not be relied on for tax, legal or accounting advice. Consult your own tax advisor about any tax or financial strategies.

Now with that out of the way, let's talk taxes.

Check out your paycheck

If you run your business as a corporation (S Corp., C Corp.) and draw a paycheck, you may notice you're paying less in taxes this year. Now, before you get all warm and fuzzy, you need to be aware you can't have it both ways.

"That means the tax–time refund you get next year may not be what you expect," Fydryck says.

Instead of getting it all back in your refund, you may have gotten it all back in your paycheck. So, be prepared.

Year-end buying spree

If you have a few extra dollars in the bank in fourth–quarter, you may be tempted to stock up on inventory at the end of the year. But there is no tax advantage to doing that. You can't write off inventory that's sitting on your shelf collecting dust.

But you can write off assets you purchase and put into service before the end of the year.

"So if you need furniture or fixtures, consider buying them before end of year," Fydryck says.

You can 'Section 179' it, which means you can deduct the full purchase price of the products the year you buy them and put them into service.

If you buy shelves, displays, signs, lighting, computers or even software to use on your truck, you can immediately write it off against your current year's income and potentially lower your tax liability. You can elect to deduct up to $1 million in property that you put into service in 2018. (For details, see irs.gov/publications/p946.

Keep on trucking – and depreciating

You can't write–off your entire vehicle under Section 179 unless it cost $5,100 or less, says Fydryck. You can, however, Section 179 the first $5,000 and depreciate the rest of the cost of the vehicle over 5 years. You'd use a "double declining balance" to write off your truck over half a decade.

The math may sound a bit confusing, but your accountant or tax preparer will understand how to do it and will likely have a handy dandy calculator to make number–crunching easier.

Give it the gas

You probably already know this, but you can't deduct your truck's miles. You need to deduct actual expenses. So keep accurate records of every gas purchase, repair, insurance payment, license fee and all the other expenses of running your truck.

"Keep two credit cards in your pocket," Fydryck says. "One that you use for personal items and one that you use exclusively for business." It will make tax time much, much easier.

See this worksheet online (philsasso.com/tax–tips) for an idea of what you may want to consider including on your expense list.

You'll get a higher standard deduction...

As I said earlier, you'll get a much higher standard deduction this year.

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"It almost doubles from 2017," Fydryck says.

Amounts increase to $12,000 for individuals, $18,000 for heads of household and $24,000 for married couples filing jointly and surviving spouses.

...Except you'll get no exemptions

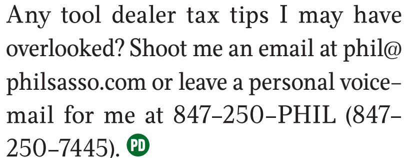
The standard deduction amounts may have doubled, but personal and dependent exemption deductions are eliminated. That means if you are caring for a parent you will not get the $4,150 deduction you may have expected to get this year. Also, be aware that once your child turns 17 you will not be eligible for the child tax credit, either.

That's crazy.

"No," Fydyck says. "That's congress."

Share your tax tips

Any tool dealer tax tips I may have overlooked? Shoot me an email at phil@philsasso.com or leave a personal voicemail for me at 847-250-PHIL (847-250-7445). PD



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Saving on your taxes by saving for your future

Tax-Advantaged accounts are savings or investment accounts that may be tax deferred or tax exempt. This reduces your current taxes while increasing your nest egg. The most popular tax-advantaged accounts for Mobile Dealers are IRAs and HSAs.

Individual Retirement Account (IRA) As a one-person business, the simplest retirement savings opportunity for you may be the common Individual Retirement Account (IRA). These come in two flavors: Traditional and Roth.

Traditional IRAs - save you taxes on your income now, but your principal and earnings will be entirely taxable when you withdraw them in retirement.

"This can be a better deal for older workers," Fydryck says. If you start an IRA when you're 50, there's not much time to earn interest or dividends. A Traditional IRA offers more tax savings when you're older and in a higher tax bracket. So, when you're retired and presumably in a lower tax bracket you'll pay less taxes on that same money.

BEWARE: If you withdraw funds from your Traditional IRA before you are 59-and-a-half years old, you will owe a 10 percent penalty on the amount you withdraw plus taxes.

Roth IRAs require you to pay taxes on the money you put in now. But when you withdraw it at retirement the entire amount is tax exempt.

"Younger people can sometimes benefit the most from a Roth IRA", Fydryck says. Putting money in an account in your 20's and letting ride for 40 years plus can be a huge benefit because the return on all that money is not taxable.

BEWARE: There are rules associated with IRAs. Your tax advisor can explain the limits and details.

Most major corporations offer employees 401(k) retirement accounts. As a one-man business, it's cost-prohibitive to set-up one of these, but you can set up a SIMPLE or SEP-IRA (Self Employed Pension IRA) to save larger amounts than the above options. Ask your broker, banker and/or tax advisor for details on these options.

Health Savings Account (HSA) - An HSA allows you to save money tax-free for medical expenses. You need an eligible High-Deductible Health Plan (HDHP) to qualify (in 2018 that's $1,350/individual or $2,700/family), says Fydryck. The 2018 cap on HSA contributions is $3,450 for individuals, $6,900 for families (add $1,000 if you're 55+).

There is no need to wait until retirement to use these funds. You can use them on any qualified medical expense for anyone covered by your insurance policy. This may cover chiropractors and other professionals not covered by your insurance. (As always, ask your tax professional before making any major moves.)

BEWARE: If you withdraw funds from your HSA for anything other than qualified medical expenses, you'll get zapped with a hefty 20 percent penalty plus taxes. (That's enough to make me feel sick just thinking about it!)