Tax Planning for Business Owners

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Business tax planning

When starting a business, you must consider several tax-related issues. Although business tax planning is a complicated area, it is essential to understand three major topics: tax consequences when the business is formed; tax consequences when the business generates income or loss; and tax consequences of business distributions. Additionally, you may wish to consider whether your chosen form of business will offer you opportunities to split your income tax liability among family members, thereby potentially lowering your overall family tax bill.

Tax considerations of business formation?

When a business is formed, an owner will typically transfer cash or property to the business in exchange for an ownership interest in the business. It's important to understand the possible tax implications of this exchange. Tax treatment varies depending on the type of business entity you select. Additionally, you need to be aware of the concept of “boot” and the tax consequences of transferring property encumbered by liabilities to the corporation.

Topics to discuss with your tax professional about how income can be split among family members in a family business to reduce overall income taxes:

- Income splitting
- Kiddie tax
- Excessive compensation of family members