Greater Washington accountants discuss the worst tax mistakes you can make

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There are worse things than simply having to file your taxes. And your CPA can tell you all about it.
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You are surely aware it's tax season, even if we're only entering March and you may have put that annual task off. While any of us might worry about making a filing mistake or not getting the refund we hoped for, it's a whole different ballgame for business owners.

Fortunately, quite a few Greater Washington tax experts were able to take a moment from their 80-hour workweeks to tell us about the myriad ways they've seen business owners flub this yearly exercise — and more importantly, how to avoid those troubles and seize opportunities.

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Common mishaps

First things first. You should not be just now starting to think about your taxes — unless it's for next year. That planning should happen throughout the year, as part of every business decision. It's not like cramming all night for an exam.

"I have seen countless opportunities missed because clients have not had the opportunity to think through a year end, a particular transaction or event before it was over," said Kyle Hazen, a partner with Cherry Bekaert Advisory LLC.

Kyle Hazen, partner, Cherry Bekaert Advisory LLC
CHERRY BEKAERT ADVISORY LLC

But go back even further, and tax planning should be a part of the very formation of your business.

"Making the wrong choice of entity may be the most tax-costly mistake business owners make," the partners in CST Group CPAs PC said in a joint statement. "Many of the choices for business entities are not able to be reversed without significant tax consequences. In other words, there is no 'mulligan' to making the choice of business structure." So companies had better be sure of that step. Get a CPA and attorney to agree with your choice of corporation, S-corporation, partnership or LLC.

Cindi Park, principal with Matthews, Carter & Boyce CPAs & Advisors PC, emphasized keeping business and personal finances separate — again, from the very start.

"A separate business account should be established, and all business income and related expenses should be run through the business account," she said. That will make for an accurate and efficient tax return at the end of the year — and also avoids what could otherwise be a sticky audit situation.

Cindi Park, principal with Matthews, Carter & Boyce CPAs & Advisors PC
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According to Timothy Ross, tax partner and practice leader of commercial services for the D.C. metro at WithumSmith+Brown PLLC, "the biggest mistake a business owner can make is either making business decisions without considering the tax impact at all or making purely tax-driven decisions." He said transaction taxes are a top offender for catching a business owner off guard, especially state sales and use taxes.

"There may be no statute of limitations, and the liabilities can be huge," Ross said. And since state rules constantly change, it's easy to get surprised from one year to the next. The solution? Each year, go over all the locations in which your business operates with your tax adviser, just to make sure.

Myths and misperceptions

Let's dispel the myth that your CPA has some secret path to reduce your tax burden through "loopholes." That term, Ross said, is a misnomer to describe tax positions, which are really just assumptions underlying one or more aspects of a return — for example, whether something is taxable or not. Those can't be avoided.

"Our job as advisers is to make sure that a business pays the taxes it owes by law and no more," he said.

Timothy Ross, tax partner and practice leader of commercial services for the D.C. metro at WithumSmith+Brown PLLC
WITHUMSMITH+BROWN PLLC

Then there's the question of where to file a return. Many business owners, Park said, think they only need to file in the state where they live, but that's not necessarily the case.

"States are becoming more aggressive in sending out nexus questionnaires to determine whether a business should be filing in its state or not," she said. Better to proactively file in a state than find out later your business has to file prior-year returns, she said, which can get pretty expensive.

And when it comes to extensions, it is a common notion that filing for one might reflect poorly on the business owner. Not so.

"Having the extra time to get things correct and have opportunities to possibly correct errors is often critical, especially for those in complicated tax situations," Hazen said. The IRS is not more likely to audit those with an extension, so long as it's done right.

Just remember — an extension to file is not an extension to pay. Taxes are due by the original deadline.

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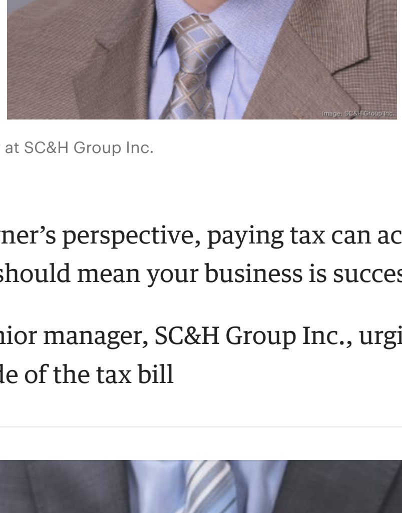
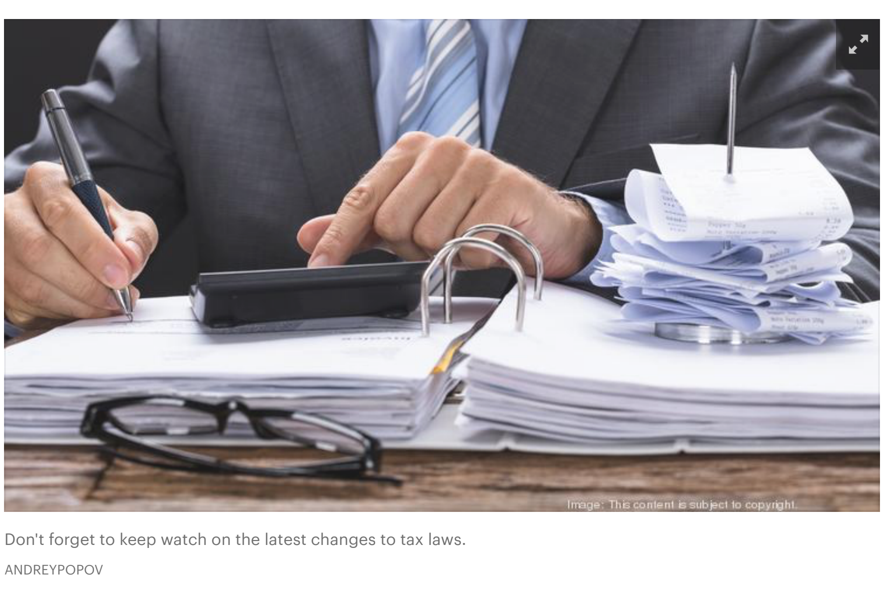


Daniel Bottner, senior manager at SC&H Group Inc.
SC&H GROUP INC.

"From a business owner's perspective, paying tax can actually be a good thing. This scenario should mean your business is successful and profitable."

— Daniel Bottner, senior manager, SC&H Group Inc., urging entrepreneurs to look on the bright side of the tax bill



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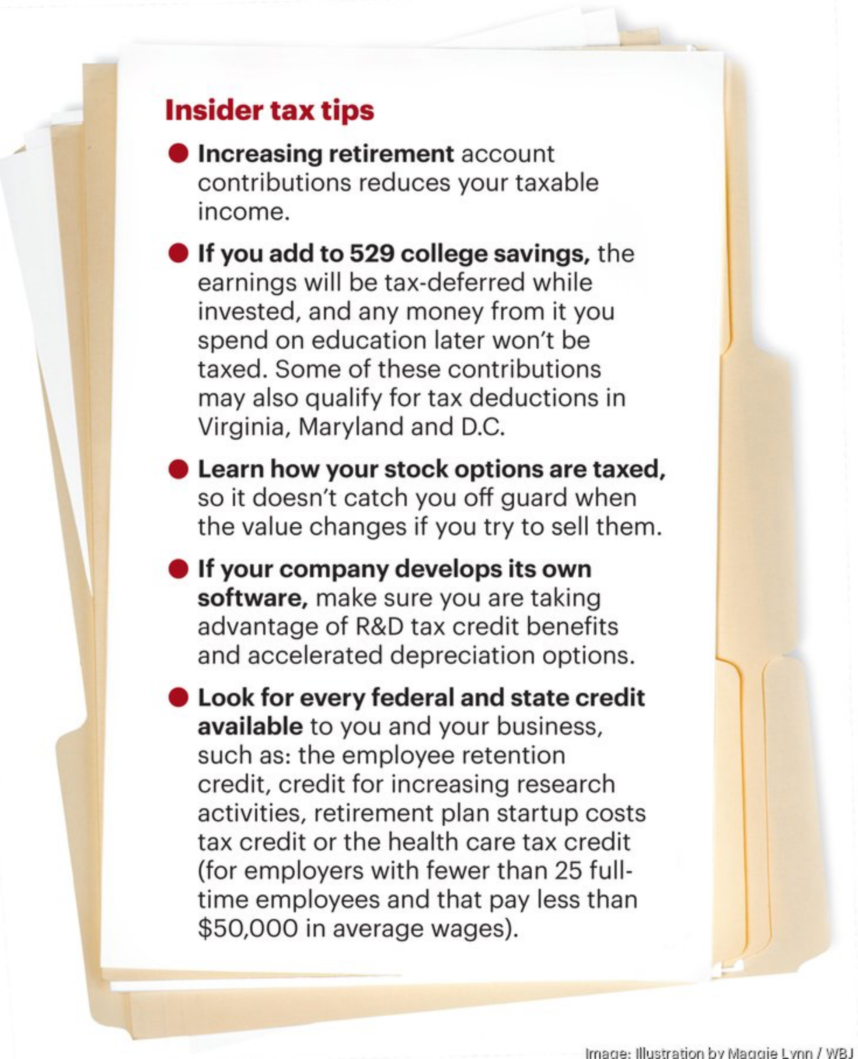
This change from the Tax Cuts and Jobs Act of 2017 was expected by many to be repealed in 2022, and yet here we are again. "It will have wide, sweeping implications across many taxpayers," Hazen said. What is it, you ask? Well, in the past, taxpayers could deduct those R&E expenses, but now they must be capitalized and amortized. This change went into effect at the end of 2021, so it's still pretty new, and obviously will have greater impact on companies from the bioscience, technology and manufacturing industries.



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