Easing the burden

How to maximize your tax incentives and ease your tax burden **Interviewed by Adam Burroughs**

The number of small businesses is increasing, and as owners focus on growing their companies, many are overlooking available tax incentives.

"Capital is so important to a growing company to facilitate growth and ensure stability," says Jeremiah E. Thomas, an associate with Kegler, Brown, Hill & Ritter. "However, small business owners often get focused on running their business and miss out on opportunities to qualify for programs that can ease tax burdens and reduce capital restrictions."

He says it's important to know what's available so that you can maximize your access to money for the benefit of your business.

Smart Business spoke with Thomas about how to uncover government programs that can help ease your company's tax burden.

Are funds readily available to small businesses?

There are many programs and incentives available, but some can be hard to obtain. While businesses may have the impression that there are easily accessible grants available, many of them are designed for very specific purposes and the average startup likely wouldn't qualify. However, that doesn't mean there aren't other opportunities to lower costs through tax credits and intelligent tax planning on the federal, state and local levels.

What types of tax incentives are available for a new business?

The most easily available tax incentives may be federal tax incentives because, in many instances, they are automatic. Knowing which federal incentives you qualify for and accounting for them on your annual tax return allows you to access 'easy' money.

For example, there is relief on capital gains taxes if you own qualified small business stock. There is also the ability to immediately deduct from taxable income certain expenses for starting a business, and small businesses are able to use tax credits for providing health care, energy efficiency improvements, and research and development expenditures.

In contrast, a lot of state and municipal tax programs require some negotiation, for instance, with county representatives to get an abatement for real estate taxes. These credits are valuable, but they take extra steps and costs to receive the benefits.

Jeremiah E. Thomas
Associate
Kegler, Brown, Hill & Ritter

How are some tax incentives 'automatic'?

Receiving the benefits of a tax credit can be as simple as knowing the credit exists, factually qualifying for it and checking the appropriate box on your return to get the benefit — there's no application process.

Also, some of the existing tax software can help automatically identify tax benefits by asking questions to determine if you qualify. However, squeezing every benefit out of a particular tax incentive is more complicated than reading the form. Consulting with attorneys and accountants is a great way to identify the applicable credits, especially with more complex ones.

Are there other incentives that are more valuable or more easily accessed?

Well, there are certainly other programs. There are Small Business Administration loans, with which businesses can take advantage of lower rates to borrow capital to grow, but those programs are pretty complex and take time to apply and qualify for. At the state level, another more complex option is the Technology Investment Tax Credit Program, which provides investors with a tax credit for the money they invest in technology companies. Small companies advertise to investors the ability to get 25 percent of their investment back from the state in the form of a credit. But in order for it to benefit the company, they have to find an investor and understand the credit. Then the investor has to apply and the company has to qualify to receive the benefit, so there are many moving parts.

The state also provides some loan programs and tax credits based on job creation. The state may lay out a number of milestones during negotiation that a company must reach for it to receive a tax credit or qualify for low rate loans.

Are there options for more mature businesses?

On the federal level, large and small companies can both benefit from good structural planning. However, there are certain federal tax incentives that are only available to small businesses, which can be outgrown.

At the state level, broadly speaking, it's easier for a more mature business to take advantage of the tax programs that exist, as Ohio is more interested in backing companies that can create more jobs, while startup companies might only be looking to hire one or two employees and may need to rely on a narrower band of incentives, such as those focused on technology.

What is the key to finding incentives that work for your business?

The real key is thinking holistically. A business is subject to different taxes. The property you own is subject to real estate tax, but programs such as the Enterprise Zone Abatement Program allow municipalities to establish local development areas where qualified companies can locate and take advantage of real estate tax abatements. There are also a number of ways companies can minimize their sales tax responsibilities, such as Ohio's research and development sales tax exemption.

It is important to think creatively about the sources of tax and have good advisers on the accounting and legal side to keep you apprised of changes in the law. You can also talk with your local development entities to uncover state and local incentives; these programs are great marketing tools for governments to show how successful small businesses are performing in their area. <<

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