Experts share the 411 on being proactive with your rink tax planning

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With April 15th behind us, we are once again presented with a new set of tax laws to navigate. In 2013, the Patient Protection and Affordable Care Act (PPACA) brings us two new Medicare taxes. The first is an additional .9% tax on earned income above $250,000 for married couples and $200,000 for single filers. The second is a 3.8% tax on investment earnings in excess of $250,000 (discussed below).

As a business owner, you may well have to deal with even more complexity and challenges, whether associated with PPACA or just minimizing your tax obligation through the "normal" course of business. In any event, working to minimize your total liability leads to more personal wealth creation.

Therefore, the purpose of this article is to familiarize you with some of steps we would investigate to minimize our exposure to these and other taxes, if we were you. With this said, before you attempt to implement any of what is shared with you here we encourage you to contact your tax advisor to determine if these steps are appropriate and reasonable opportunities for your business or family.

Operating a Business

How you organize your business affects how your business and you will be taxed. A Regular Corporation, or "C" Corp., will have its earnings taxed at rates ranging between 15% and 35%. An LLC or Sub-Chapter "S" Corporation will be taxed at the business owner's marginal tax rate. These rates range between 15% and 44.30% in 2013 and beyond. Depending upon your state of operations and residency, your income tax rate could easily exceed 30% of everything you and your business earns annually. So, if we were you, we would look for opportunities to have our income, whether personal or business income, taxed at the lowest possible rate.

Owners and operators of family skating and entertainment centers are frequently operating several "businesses" under one roof. For example, you have a food and beverage operation, an arcade, a private party center, an entertainment center (i.e., roller skating), soft play, rock wall, laser tag, a retail store for skates and related merchandise and a business management company. You may also have a leasing company, perhaps two, where the building, equipment and games are owned separately from the skating/entertainment center.

Investigate designing an executive compensation plan within this management company that includes a deferred compensation plan and salary continuation benefits for yourselves and family where appropriate. Determine whether you can convert the form of income received from ordinary income to investment income, i.e. 15% or 20% capital gain taxation, or the deferral of income, whether into another reporting period, or through the use of tax deductible contributions to an employer- sponsored retirement savings plan.

As an Individual

Earlier we referred to the two new Medicare taxes that may impact your tax liability. The .9% Medicare surtax on wages took effect at the beginning of 2013. Quite simply, if your W-2 wages exceeds $200,000, the employer is required to withhold the additional tax on amounts above the threshold. The employer is not required to match the tax!

The 3.8% surtax on unearned investment income also took effect on January 1, 2013. This new tax will be applied against the lesser of your net investment income, or your modified adjusted gross income (MAGI), if it exceeds the applicable "threshold" levels mentioned in the first paragraph.

So what is net investment income? This includes taxable interest, dividends, rents, taxable annuity income, royalties and your net capital gains. If you are not "active" in your business the net income from this activity will also be included in this definition. In addition, "net gain" from the sale of property held for investment purposes, including the taxable portion of a gain from the sale of a personal residence (the amount that exceeds the $500,000 couple - $250,000 single exclusion amount) falls within this definition.

Investment income that is not included within this definition would be tax-exempt interest, income from a trade or business in which the taxpayer is actively engaged in the business, and distribution from an IRA, whether a traditional or Roth IRA, an employer qualified retirement plan or deferred compensation plan. Even so, you have to keep in mind distributions from a traditional IRA or qualified retirement plan are included in determining your modified adjusted gross income! Cash value in life insurance policies, social security benefits and wages are also excluded.

Given the likely components (sources) of your income, consider the appropriateness of adding tax-exempt securities to our portfolio, in lieu of taxable bonds. Whether this is appropriate or not also depends on the credited interest rate, the type of the bond(s) being considered, and the diversity options available to you and your income needs.

You can attempt to maximize your contributions to your retirement plans, including 401-K, SEP-IRA, SIMPLE-IRA or IRA. The combination of income tax deferral, wealth creation and, potentially, legacy benefits available to your heirs, makes the use of these forms of government approved tax savings options very difficult to beat when compared with other tax savings strategies. Obviously, the facts and circumstances of your business and your personal financial situation will factor into the type of plan you would adopt.

As with any government approved tax savings program there are constraints and limitations to consider. In 2013, the maximum contribution to a 401-K plan is $17,500. For those over the age of 50 the "catch-up" contribution is another $5,500. The participant maximum dollar allocation in 2013 is $51,000 and the maximum SIMPLE IRA contribution is $12,000 and the Catch-up amount is $2,500.

As previously mentioned, distributions from a Roth IRA are not included in your modified adjusted gross income amount. Whether it is appropriate to convert some or all of your Traditional IRA to a Roth requires careful analysis. Executing a conversion is a taxable event. You should consult your tax advisor and your financial planner before taking this step.

If you are contemplating selling your business or investment property you may want to consider the appropriateness of an installment sale, thereby deferring the receipt of income over a number of years. This too requires careful consideration and discussions with your tax and financial advisors. There are risks and costs to consider when deferring the receipt of income over time. In some instances these risks and cost will outweigh the impact of taxes paid today.

A Final Point

It's been our experience that most tax planning occurs on a reactive basis, i.e. after the money has been earned and it's now the fourth quarter of the year. In some instances the nature of one's business or income makes this the only option available. However, we believe you have the option to be proactive with respect to tax planning that is, do your planning early in the year, when your options are at their greatest, and reasoned and informed decisions can be made without having to manage a short-term time horizon

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