How to benefit from changes in Modified Business Tax

MYVOICE
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With Nevada's unemployment rate remaining stubbornly high, the state's business owners are struggling to adjust their business practices to the new reality. As economic uncertainty persists, many small business owners are taking the brunt of the hit as tighter household budgets are prompting consumers to spend less.

Amid concerns of their business' prospects, worries of their individual financial future looms as well. Some relief is on the horizon for many of Nevada's small business owners, as the state legislature recently voted to amend the Modified Business Tax allowing for a two-year exemption for small business owners. The tax break — however small for individual business owners — shouldn't simply be absorbed by the business, but rather can translate into meeting the business' and business owner's financial goals.

Here's how the changes impact small business owners:

According to the state legislature's July Tax Notes, as of July 1, 2011, the state Legislature's budget reforms came into effect. The reform includes an amended Modified Business Tax, eliminating the first tier of taxation on business payrolls. As a result, Nevada business owners will receive a tax break on their quarterly MBT and many small business owners will be exempt from the tax altogether. For the first $62,500 in wages paid, employers will be taxed at a zero-percent rate; all wages in excess will be taxed at 1.17 percent. While small business owners (those with payrolls of under $250,000 per year) will benefit the most from the recent legislative changes, larger businesses will feel the effects as well, with their first tier also eliminated and taxes coming into effect beyond the $250,000 payroll level.

With the recent changes coming into effect, an estimated 70 percent of Nevada businesses will receive payroll tax breaks. The tax savings are slated to create a slight windfall for the region's business owners, and in this economy, every little bit helps a small business' bottom line. With the extra money now available to many business owners, they are left wondering how to reallocate the funds to best benefit the business and themselves.

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While there are several options, the most impactful on the long-term are action plans that aim to benefit the business' and the owner's financial futures. Some of these actions include paying down existing business debt, spearheading a retirement savings plan for employers or reinstating employer matching, building an individual nest egg, and identifying and eliminating other unnecessary or superfluous taxes paid.

Action Plan 1: Pay down existing business debt

For even the most successful small businesses, plaguing debt can deter long-term growth. Reallocating money that would be paid in taxes to paying down long-term debt on items such as small business loans, credit card debt, and outstanding land and office payments, among others, will yield a long-term benefit for the business. Paying down the debt before it becomes due will not only begin to chip away at the company's overall debt, it will also save the business money on interest payments over the course of the payback period.

Action Plan 2: Start a retirement savings plan for employees, or reinstate an employer matching program

This is a great selling point to attract employees and retain them and the owner could also benefit from saving within the company's plan. Many workers are looking for ways to save for their own retirement so it's key to providing them with a vehicle to do so. If a retirement plan is already offered, perhaps this capital could be deployed to establish an employer match or reinstate a match that was rescinded during the economic downturn.

Action Plan 3: Build a retirement plan

Many small business owners see their business as their retirement nest egg and any excess capital is usually plowed back into the company. With this in mind, it's pertinent for small business owners to set aside funds in a tax-efficient way in order to ensure that they will actually have a retirement. This is also a way to create a safety net in the event that the business is not sold at the target price. Even if the company remains in the family, the seller can alleviate some of the financial burden from the successor by drawing from a separate retirement account rather than the business. It's easy to set up an individual IRA or 401(k) through any of the online brokerages or through a financial advisor.

Action Plan 4: Examine your small business' tax return

The extension of the Modified Business Tax is also a great reminder for small business owners to carefully review their business' tax return and identify areas that can be reduced or eliminated. Small businesses are exempt from many taxes and are eligible for numerous tax deductions as well. Some of the deductions include insurance premiums, retirement contributions, home office, supplies, and furniture, among others. Identifying areas where less can be paid in taxes can further extend a small business' gains in the long-term.

The amended Modified Business Tax is slated to help countless struggling small businesses across the state for the next two years. Much like you have a plan for your business, you must also have a plan for your individual financial future. The Modified Business Tax break is an excellent opportunity to merge those objectives for overall financial well-being.

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