

What Is The Biggest Tax Mistake You Could Ever Make?

Have you ever noticed how American taxpayers everywhere breathe a collective sigh of relief on April 15? Does this sound familiar: "Whew, I'm sure glad another Tax Season is over!"

Unless you filed an extension, you've got your tax return done and now you can forget about taxes for another year. Yep, that has a nice ring to it, doesn't it? It sounds so good, I think I'll say it again: "Now you can forget about taxes for another year."

If you found yourself agreeing with me there, guess what? I gotcha!

I just caught you making the biggest tax mistake you can possibly make -- the incredibly short-sighted attitude that taxes is a "once-a-year" thing, something you do only because you are forced to deal with it every spring, and then you are so fed up with the whole mess that you gladly forget about it until next spring, and then, only because you are forced to deal with it again.

If this is the way you approach taxes, you are doomed to overpay your taxes forever.

My message today is a simple one, but unfortunately, one that often falls on deaf ears. So please, I really do hope you are listening with your ears wide open.

Here it is, my Post-Tax Season Message (but it is applicable any time of year): If you only pay attention to your tax bill during Tax Season, then you are probably paying too much tax.

Our tax system is unbelievably confusing, incredibly convoluted, and increasingly chaotic. In a word, it's crazy. And it's only going to get worse. Even as I write this, Congress and the President are going round and round about the next round of tax law changes. So what else is new?

But even with all its mind-numbing complexity, our tax code has many legal loopholes you can drive a truck through. Here's a startling statistic to drive home the point: It is conservatively estimated that small business owners and self-employed people are overpaying their taxes by 160 billion dollars every year.

And the biggest cause of this situation is the simple fact that small biz owners and the self-employed are not using all the tax loopholes they are entitled to. But you'll never figure out what those loopholes are by only spending a few hours, once a year, filling out the forms.

It's gotta be a year-round task. And you need to realize that some of the best tax-reduction strategies require some research on your part. You've got to do your homework, check things out, maybe even consult with a professional to make sure you're not missing something and that all your ducks are in a row. Like any worthwhile goal, it takes time and energy.

In my experience, there is one small biz tax-reduction strategy that stands head and shoulders above all the rest: Choice of Entity. By "Choice of Entity", I'm referring to what type of business you own, from a legal standpoint. Here are your choices:

Sole Proprietorship, Partnership, C Corporation, S Corporation.

Note: The Limited Liability Company is also a possible entity choice, from a legal standpoint. But if you form a LLC, you then must decide how that LLC will be taxed, and the LLC can be taxed like any of the 4 options listed in the above paragraph.

The purpose of this article is not to tell you which entity is best for you and exactly how much money you can save in taxes by picking one of these entity choices. I can't do that in a few hundred words. But what I can tell you right now is this: Your Choice of Entity could be the single-most important factor in determining your annual tax bill.

I can also tell you this: every year, thousands of small biz owners and self-employed people save literally thousands of dollars in taxes because they made a simple one-time change in their Choice of Entity.

Obviously, there are many factors that determine how much tax you pay: the accuracy of your record-keeping, how organized you are, your knowledge of all the many available tax deductions, etc. But have you considered that the most important factor of all is this: What entity type are you?

So, now that Tax Season is a not-so-distant memory and your mind turns to other, supposedly more important matters, my question to you is this: How do you know that your current Choice of Entity is the best one for you? Have you done an analysis of the pros and cons of each entity? Do you know what the tax consequences would be if you changed your Choice of Entity? Do you know what it takes to make a change from one entity type to another? Let's say you are a Sole Proprietor: do you know how much tax you would have paid last year if your business had been a C Corporation or an S Corporation or a Partnership?

These are not the kinds of questions you have time to address while frantically looking for lost receipts and filling out the tax forms on April 14th. Sooner or later, you should turn your attention to one of the most critical tax issues of all: Choice of Entity. And believe me, sooner is better than later. If you've made the wrong Choice of Entity, you could be overpaying your taxes by thousands every year.