

Chamber Workshop Recap: Tax Strategy & Business Entity Planning

July 22, 2026

Business owners and professionals gathered for July's Chamber Workshop featuring Chamber Ambassador **Dina**, who shared practical strategies for minimizing taxes, protecting personal assets, and structuring businesses for long-term success. Rather than focusing on year-end tax preparation, the presentation emphasized that effective tax planning should happen throughout the year and begin with understanding the "big picture" of how every financial decision impacts a business owner's overall tax liability.

Below is a recap of the key topics discussed for those who were unable to attend.

Looking at Taxes from the "Big Picture"

One of the workshop's primary takeaways was that tax planning should not be approached as simply filing a return each April. Instead, business owners should work backward from their individual tax return (Form 1040) to understand how every business decision—from purchasing equipment to selecting a business entity—ultimately affects their personal tax liability.

Every transaction, whether it's earning business income, selling real estate, paying employees, or investing in new equipment, eventually flows through to the owner's tax return. Understanding this relationship allows business owners to make more strategic decisions throughout the year rather than reacting at tax time.

Choosing the Right Business Entity

A significant portion of the workshop focused on selecting the proper business entity. Dina explained that while many entrepreneurs automatically assume an LLC is the best option, the appropriate structure depends on several factors, including:

- The type of business being operated
- Whether the business provides services or sells products
- Professional licensing requirements
- Desired tax treatment

- Asset protection needs

California has specific regulations governing which entities certain licensed professionals may use. For example, attorneys, CPAs, physicians, and other licensed professionals generally cannot operate as LLCs and instead must form Professional Corporations.

Participants learned that choosing the correct entity isn't simply about taxes—it also determines liability protection, reporting requirements, and how income flows to the business owner.

Understanding LLCs, S Corporations, and Liability Protection

The discussion compared several common business structures:

Sole Proprietorships

- Easiest to establish.
- No legal separation between the owner and the business.
- Personal assets may be exposed to business liabilities.

LLCs

- Provide liability protection for business owners.
- Popular for many small businesses.
- Require annual California filing requirements and franchise taxes.
- Often used to hold investment real estate.

S Corporations

- May provide tax advantages depending on the business.
- Require payroll and additional compliance.
- Can help reduce self-employment taxes in certain situations.

C Corporations

- Appropriate in some circumstances depending on long-term business goals.
- Different tax treatment than pass-through entities.

Dina emphasized that liability protection only works when businesses operate properly and legally. Fraudulent activity or failure to follow corporate formalities can eliminate those protections.

California LLC Costs and When to Close an Entity

Business owners were reminded that California LLCs require ongoing maintenance, including annual filing requirements and state fees.

If an LLC is no longer serving a business purpose—particularly if the business has transitioned into another entity—it may be worthwhile to formally dissolve it rather than continue paying annual costs.

Simply abandoning an LLC without officially closing it can result in continued filing obligations and unnecessary expenses.

Protecting a Business Name

For businesses considering dissolving an LLC but wishing to continue using the same business name, Dina discussed filing a **California service mark** to help protect the business identity.

This allows owners to retain rights to their established name even after closing a particular entity structure.

Asset Protection Strategies

The workshop also covered strategies for protecting personal assets from business liabilities.

One recommendation discussed was holding investment real estate inside an LLC rather than personally, creating an additional layer of protection. Dina also explained that many business owners work with attorneys to structure ownership through trusts as part of a broader estate planning strategy.

Participants were reminded that asset protection involves both proper legal structuring and maintaining appropriate insurance coverage.

Business Classification Matters

Every business is assigned a six-digit IRS business activity code that identifies the nature of its operations.

While this may seem like a small detail, the workshop explained that selecting the proper business classification affects how the IRS evaluates a company's financial information and compares expenses against similar businesses.

Using the correct classification helps ensure more accurate reporting and reduces the likelihood of unnecessary questions from tax authorities.

Avoiding Common Audit Triggers

One of the most practical sections of the workshop focused on financial reporting practices that can help businesses avoid unnecessary IRS attention.

Some recommendations included:

- Consistently reconciling gross revenue across all reporting agencies.
- Ensuring income reported to the IRS matches other government filings whenever applicable.
- Avoiding unexplained, dramatic swings in expenses from one year to the next.
- Maintaining documentation to support deductions.
- Using precise figures rather than excessive rounded numbers whenever possible.

Good bookkeeping and consistent financial reporting make tax preparation easier while also reducing audit risk.

Maximizing Tax Deductions

The workshop highlighted several opportunities businesses may overlook when planning taxes.

Safe Harbor Election

Businesses can generally expense qualifying purchases costing **\$2,500 or less** immediately rather than depreciating them over multiple years. This simplifies bookkeeping and accelerates deductions for many common business purchases.

Bonus Depreciation

For larger equipment purchases and certain property improvements, businesses may qualify for accelerated depreciation, allowing them to recover costs more quickly rather than spreading deductions over many years.

Real Estate Depreciation

Commercial and residential investment properties generally must be depreciated over extended periods (typically 39 years for commercial property

and 27.5 years for residential rental property), creating ongoing annual tax deductions.

Research & Development (R&D) Tax Credits

Many owners assume R&D credits only apply to technology companies, but the workshop explained that businesses developing internal software, proprietary systems, or innovative business processes may also qualify.

Although calculating these credits can be complex, they can produce significant tax savings for eligible businesses.

Accounting Software and Financial Systems

As businesses grow, maintaining accurate financial records becomes increasingly important.

Dina recommended that companies approaching or exceeding **\$1 million in annual revenue** invest in comprehensive accounting software such as QuickBooks to improve reporting accuracy, streamline bookkeeping, and provide better financial visibility throughout the year.

Payroll Best Practices

Businesses considering changing payroll providers were encouraged to make the transition **at the beginning of a calendar year**, ideally January 1.

Starting with a new provider at year-end minimizes reporting complications and avoids splitting payroll records between multiple providers during the same tax year.

International Tax Considerations

The workshop concluded with questions regarding international business activities.

One important reminder was that U.S. citizens generally remain subject to U.S. taxation regardless of where business income is earned. International business ownership can involve additional filing requirements and reporting obligations, making professional tax guidance especially important.

Key Takeaways

The overall message of the workshop was that **effective tax planning is proactive—not reactive**. Business owners should regularly evaluate whether their business structure still meets their needs, maintain accurate financial records throughout the year, and work with qualified tax and legal professionals to maximize deductions while remaining compliant.

By understanding how business decisions affect both taxes and liability protection, entrepreneurs can position themselves for long-term financial success rather than scrambling during tax season.

Thank you to **Dina** for sharing her expertise and practical guidance, and to everyone who joined us for another informative Los Gatos Chamber Workshop. We look forward to seeing you at next month's session!

