



Richards Rodriguez & Skeith^{LLP} Attorneys at Law

Tax Strategies for Business Owners

Tax law creates the duality of appearing intuitive one minute and mind-numbingly confusing the next. One reason for this exasperation is the passage of time. While business owners and executives must file taxes for the past year, they must also plan ahead for future tax deductions and expenditures. The thought of improving company tax strategies, for most business owners, presents a daunting challenge. One important thing to remember is not to let anxiety over taxes affect the company's ability to save money and spend it wisely. There are a number of easy strategies for improving the timing of your company's tax deductions and making the most of your business expenditures.

The primary rule for timing business tax deductions depends on a company's budget forecast. If your firm expects a profit this year, your taxes will, of course, increase as the profit increases. Therefore, you want to create and use as many legitimate deductions as your profit will allow. Following this same reasoning, an expected loss is the time for a deferment of deductions. In all cases, deductions must be legitimate and not exceed what your company's profit can absorb.

Legitimate deductions include anything from business purchases to employee benefits, charitable donations, and invoice scheduling. If your company expects a profit this year, consider purchasing that copier or business software you've been eyeing. Most small businesses are eligible for the Section 179 deduction. For tax year 2007, a business can immediately deduct up to \$105,000 worth of business equipment, providing certain parameters are met. For instance, the deduction amount must be within the company's taxable income for the year. But be careful, other business deductions, which also qualify for a Section 179 write-off may not exceed \$420,000 in total. Be sure to charge deductible business expenses on company credit cards before the end of the year. This way, your business will be deducting the amount of the expenditures in 2007 and not paying them off until 2008. It is important to avoid charging business supplies on store revolving charge accounts. Business purchases on your Home Depot credit card cannot be claimed until after you pay the bill, which nullifies the tax benefit.

Another way to create a legitimate deduction is to update accounts and write off bad debt. This deduction is for businesses which operate on an accrual basis. Organize your accounting spreadsheet by debts collectible, and see if your receivables can still be collected this year. Uncollectible bills for 2007 may be deducted as bad debts on your business tax return. While you are organizing, consider deferring invoices until the year's end. This way you will be paid—and taxed—next year. Note: never defer billings when you think they are less likely to be collected as a result.

Most business owners know to cut checks before the year's end. Checks may be deducted even though they will not clear until early next year. Ensure your write-offs against an IRS challenge by mailing large year-end checks through registered or certified mail as evidence of payment in 2007. If your business depends on year end profits, you may want to consider ending

your fiscal year in the middle of the year. This way, you can delay your income tax payments on year-end profits, as well as your higher estimated income taxes toward next year's tax bill.

Show appreciation for your employees with retirement plans or for the community with charitable donations. Plans such as 401(k)s, Keogh, SIMPLE IRA, and SEP IRA all qualify for business tax deductions. Retirement plans like 401(k)s must be set up by the end of the year. Other plans such as SEP IRAs can wait until your extended filing deadline. Be sure to carefully research your options or seek professional advice to decide which plan best suits your business. Remember, retirement plans for owners, managers, and all other staff must have similar benefits.

A profitable year for your company may inspire you to give back to the community. The best option for charitable giving is to donate property that has increased in value. These contributions include stock, mutual funds, artwork and antiques. As long as you have owned the property for more than one year, you may deduct the full fair market value of the gift and avoid capital gains tax on the property's appreciation.

The guidelines for tax strategy during the year of an expected loss are quite simple. For one, postpone purchases of business equipment. You want to wait until next year when you have more income to offset. If you expect nondeferrable deductions for this year--and your clients are willing to oblige--collect payment this year for work you will do next year. Of course, this method works best towards the end of the year.

If you own more than one business with pass-through taxation, which includes limited liability corporations and most partnerships, look at the big picture. You may be able to offset profits for one company with the losses of another. Limited partnerships and other business entities are good options for long-term tax planning because they protect your personal assets. Consult a tax attorney to explore various business entity choices such as C Corps, S Corps, limited partnerships and limited liability corporations. In Texas, limited partnerships are a good option because they are not currently subject to the Texas Franchise Tax. This state tax claims of 4.5% of your company's income.

Business entities such as corporations and S Corps may be converted to limited partnerships, which have a number of benefits. For example, limited partnerships allow a business to reduce its taxable estate for estate tax purposes. Limited partnerships in combination with smart succession planning create the best protection of your assets. Gifting ownership of the company to your children in increments of \$11,000 per year is below the minimum amount for taxation of gift giving.

These guidelines for timing your business's deductions will allow your company to get a jumpstart on tax planning while maximizing your profits and getting the most from tax deductions. They will also prepare you for other important business strategies such as forming a partnership and business succession planning. Please contact our firm, Richards Rodriguez & Skeith LLP to learn more about tax strategies for your growing business.