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Year-End Tax Strategies To Boost Your Business

Most of the advice you'll read about year-end tax planning involves strategies for cutting personal taxes. But there are numerous moves you can make to cut the tax bill of your business, too. Here are seven possibilities that might work for your company at the end of 2009.

1. Section 179 deductions. Under Section 179 of the tax code, a business can deduct, or "expense," the full cost of tangible assets (new or used) placed in service during the year. In 2008, thanks to a new law intended to boost economic activity, the maximum deduction was increased to $250,000 (twice the 2007 limit of $125,000), provided that total purchases don't exceed $800,000. (For each dollar above that ceiling, your deduction is reduced by a dollar.)

Now the new economic stimulus law enacted in February—the American Recovery and Reinvestment Act of 2009 (ARRA)—extends this tax break for another year. Caveat: Just be sure to get any equipment up and running before January 1, 2010.

2. Bonus depreciation deductions. The 2008 economic law also allowed businesses to claim a 50% "bonus depreciation" deduction for new (not used) business equipment bought and placed in service during 2008. As with the enhanced Section 179 deduction, the ARRA extends the bonus depreciation tax break through 2009. Note: Your company can also take a normal depreciation deduction for the remaining value of the equipment after it claims the bonus depreciation "off the top."

Also, the bonus depreciation deduction can be combined with the Section 179 deduction for a powerful one-two punch. To qualify for bonus depreciation, assets must be deductible under the Modified Accelerated Cost Recovery System (MACRS) and have a depreciation recovery period of 20 years or less. Specified water utilities, computer software, and leasehold improvements also qualify. For some property with a depreciation period of 10 years or longer, the deadline for placing into service is December 31, 2010.

3. Bad business debts. If your business uses the accrual method of accounting and you're having trouble collecting from customers this year, you may be able to take some consolation by writing off the debts. The IRS lets you deduct unpaid bills during the year they become totally worthless, so consider stepping up collection efforts before the end of the year. You could send a series of dunning letters and follow up with phone calls and emails. Or you might hire a collection agency. Keep detailed records of all your activities.

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Tax Season Is On The Horizon... Are You Ready?

As we approach the end of 2009, you may want to think about taxes. Year-end tax moves could be as simple as using up funds in a tax-free flexible spending account or as complex as balancing your taxable investment gains and losses. Either way, we suggest getting in touch with your tax preparer for guidance on what (if anything) needs to be done.

We all find ourselves looking for ways to pay less taxes, but we're often so busy working, pursuing hobbies, or just enjoying life that we don't make time to look at our own circumstances and take steps to maximize our financial situation. It's been said "we spend more time each year planning our vacation than we do looking at our financial picture." And what's more important: Saving for retirement or having fun at the beach? (Don't answer that!)

In this issue, you will find some great tax tips. Whether you're retired, self-employed, or working for someone else, I'm confident that at least one or two will surprise you. Also read about changes to COBRA (health insurance for the recently jobless) that help many Americans in these challenging times.

Feel free to share this newsletter with family or friends—you never know when a little tax tip could make a big difference. Please don't hesitate to call us with any questions regarding your end-of-year planning.

Stay warm!

Jim Joseph, CFP®
Vice President

When Should You Amend A Tax Return?

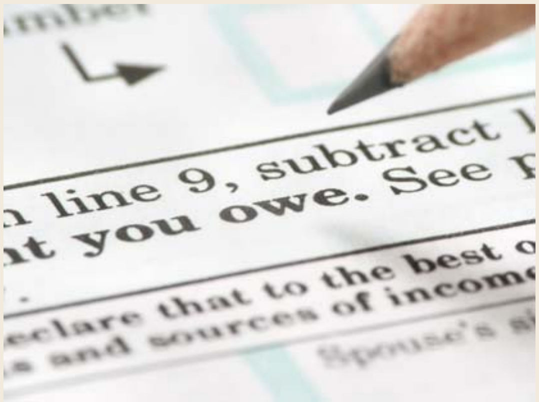
Filing a tax return once is enough of a hassle. Doing an amended return for the same tax year—in other words, filing twice—seems like way too much. Yet millions of amended tax returns are filed by individual taxpayers each year.

Does an amended return increase your chance of being audited? Technically, no. But it will extend your exposure to IRS challenges. The agency can come after you for back taxes for up to three years from the date you file a return, and if you re-file, say, a year after the fact, that restarts the clock.

Still, filing an amended return can put money in your pocket. So here are some of the most common reasons to file IRS Form 1040X.

You get an amended 1099, K-1, or W-2. These are forms sent to you by banks, brokerages, investment partnerships, employers, or others. It's not uncommon for these firms to make mistakes and resend a corrected form months after sending the original. And even if the corrected form will mean only a small change in your tax liability, you'll still need to file an amended return, since the government also receives a copy of revised forms and will match them to your return.

You're a sole proprietor, a shareholder in an S-Corporation, or the owner of a partnership. As such, you may have strong incentives to file an amended return, since pension or profit-sharing plans for one year can be funded with earnings from the following year. Say you get a windfall after filing your 2008 return. You can use it to increase pension plan funding for 2010, retroactively giving yourself a larger deduction. You can reflect the change on an amended return. You have until the extended due date for the 2009 return (at least until October 15, 2010).



You discover an overlooked deduction when checking through your records, such as from a charitable contribution.

The law or IRS rules have changed. Sometimes the IRS clarifies a rule or a court ruling will liberalize a tax break.

You miscalculated when figuring your tax liability for selling a mutual fund. Often, investors count only their original purchase price as their cost, not realizing that reinvested income also qualifies. Your actual gain could be much lower than the amount you reported to the IRS.

In most cases, filing an amended return will cost $200 or less. And if only one or two calculations have to be changed, it shouldn't be a big deal. No one likes to deal with the IRS and taxes, but you could be leaving money on the table by shunning a 1040X.

To keep up-to-date on tax law changes affecting your taxes and your business, visit www.irs.gov or call 800 829-1040 (individuals) or 800 829-4933 (businesses). ●

Should You Advertise In The Yellow Pages?

In these days of instant Internet gratification, are the Yellow Pages, well, so 20th century? Do your business's prospective customers still let their fingers do the walking, or are they more likely to find you via a local Web search? Which medium offers a bigger bang for your advertising buck? There aren't simple answers. To make smart choices, you need to navigate a crowded, increasingly complex marketplace.

What you get in print. Consumers, long accustomed to browsing these categorized lists of local businesses, are able to quickly get the names of several companies selling the product or service they want, and having your business's name there can help current and prospective customers find you. Your telephone number and address are listed, and you can buy a display ad to make a bigger splash. However, all of your competitors will be right there with you, and if your area has multiple Yellow Pages offerings, you'll have to choose among them or advertise in all of them.

The Web alternative. If you're considering a Web listing or ad, there's an even larger universe to choose from. In addition to YellowPages.com and superpages.com, there's Google, and A9.com from Amazon, as well as Yellow Pages buttons on Yahoo! and AOL.

So where should you put your money? It may be tough to turn your back on the Yellow Pages—not least because phone companies have enormous sales staffs that will pester you for your ad—and many consumers still consider print directories a valuable resource. If your business is located in a major metropolitan area, you could be putting its name before millions of potential customers. Plus, old habits die hard. Most people are used to looking in the Yellow Pages when they need a product or service,and older customers, in particular, will probably continue to do so. So if your products or services appeal mainly to an older market, the

Seven Tax Moves To Make Right Now

Last-minute tax-saving opportunities are always welcome, of course, but you're more likely to make a noticeable dent in your tax bill if you plan well and begin early. Smart tax planning is a year-round proposition, especially if you run a small business or are self-employed. Here are seven moves to consider before the end of the year.

1. Make the most of travel deductions. Even in this age of teleconferencing, there's often nothing more productive than a face-to-face business meeting, and deducting travel costs can make overnight trips more affordable. The IRS lets you write off airfare or car mileage as well as meals and lodging, as long as business is the primary purpose of a trip. (The deduction for meals is limited to 50% of the cost.) And taking time out for pleasure is allowed as long as you spend more time on business than on pleasure. Just don't deduct what you spend on personal pursuits.

2. Limit your time at your vacation home. Renting out a second home will do more to cut your tax bill if your personal use of the property doesn't exceed the greater of 14 days or 10% of the time it's rented. If you're there less than that and your costs exceed the rental income, you'll be able to claim a deductible loss. Go past that threshold, and you'll be able to use expenses only to offset the income. Keep in mind that the time you spend getting the place ready for renters or making repairs doesn't count as personal use, even if your family tags along just for fun.

3. Buy a new vehicle. This year's stimulus legislation created a tax-saving opportunity for car-shoppers. If you buy a new vehicle before January 1, 2010, you can deduct the sales and excise taxes attributable to the first $49,500 of the vehicle's price. This tax break applies to passenger cars, motorcycles, light trucks, SUVs, and even motor homes weighing no more than 8,500 gross pounds. But this deduction is phased out if your adjusted gross income (AGI) exceeds $125,000 for single filers and $250,000 for joint filers.

4. Hire your child. Giving your son or daughter an after-school job not only provides valuable experience; it also can deliver up to $5,700 of tax-free income to a child in 2009. If your business is unincorporated, you don't have to withhold employment taxes for achild under age 18, and any business can deduct the child's wages as long as they're reasonable for the work being done.

5. Entertain your clients. You can deduct 50% of the cost of treating a client as long as the entertainment follows or precedes a "substantial business meeting." For example, if you finalize a new contract in the morning, you could write off a golf outing or a fishing expedition in the afternoon and dinner and drinks at night. If the client has traveled a long distance, the entertainment may take place the day before or the day after the meeting.

6. Save on energy and taxes. The stimulus act also enhances tax incentives for installing energy-efficient home improvements. Now you get a residential energy credit of 30% of the cost of the work, up from 10%, and the lifetime $500 cap on the credit has been replaced by an annual limit of $1,500. The credit covers wide-ranging improvements, from adding insulation to installing a whole-house fan or central air-conditioning, and covers work done in 2009 and 2010.

7. Be a first-time homebuyer—again. Unless you're a confirmed city dweller and have always rented, you've probably owned more than one home over the years, and you wouldn't expect to qualify for a tax break offered to "first-time" homebuyers. But the new law defines a first-timer as anyone who hasn't owned a principal residence during the past three years. The credit is phased out for high-income tax filers. Update: The credit was scheduled to expire after November 30, 2009, but it has since been extended to May 1, 2010, with higher phase-out levels and other favorable modifications. You may even use the credit available for a home purchased in 2010 to offset your 2009 tax liability.

These are just a few of the many opportunities to cut your tax bill long before December 31 rolls around. On the personal side, for example, the ongoing turbulence in the stock market might give you a chance to generate capital losses while improving your portfolio. We can work with you and your tax professional to explore options that make sense for your business or your personal finances. ●

print Yellow Pages could continue to provide good value for your advertising dollar.

However, market research has begun to suggest that online Yellow Pages bring more business than the print variety. Especially if your customers tend to be young and computer-savvy, you can hardly afford not to be listed in the online directories, and you definitely need to invest in an attractive, easy-to-navigate Website that accurately describes what you do. Many online Yellow Pages offer pay-per-click programs that can help you gauge how many customers are being sent in your direction. Just keep in mind that your ad costs may vary each month, depending on how many people click on your company's name.

As the Web continues to become more commonplace, it's likely that the vast majority of would-be customers will get in the habit of finding products and services exclusively on the Web. Then, even more than now, you're going to need to have your business online, and the print versions of the Yellow Pages may well disappear. ●

New COBRA Benefits For Those Laid Off

If you're one of the millions of Americans who have lost jobs during this recession, finding a way to keep employer-provided health benefits is probably a top priority. The American Recovery and Reinvestment Act of 2009 could make that much easier, reducing your cost in most cases by almost two-thirds.

Under a 1986 federal law commonly known as COBRA (Consolidated Omnibus Budget Reconciliation Act), an employer with 20 or more employees must offer full-time employees the option to continue group health insurance coverage following a "qualifying event." (Other employers may volunteer to provide COBRA coverage.) If that event is a termination or reduction in hours, you're eligible for 18 months of extended coverage, which could be extended to 29 months if you've suffered a disability or 36 months if you're a spouse or dependent facing loss of health coverage because of an employee's death, divorce, or legal separation. Although a company has to let you keep your insurance under those circumstances, it doesn't have to pay for it. You'll generally be on the hook for the full cost of coverage plus a 2% administrative fee.

Under the Recovery Act, your former employer may have to share that burden. Anyone who is involuntarily terminated from employment during a 16-month period—from September 1, 2008 through December 31, 2009—can elect to pay only 35% of the cost of continued health insurance coverage for up to nine months. The employer is responsible for the other 65%, though it can offset that obligation through a payroll tax credit, reduced withholding, or both.

There are income limits, however. If, during the year you claim the new COBRA benefits, you still earn $125,000 in modified adjusted gross income (MAGI) for single filers or $250,000 if filing jointly, you'll get only a partial benefit, and you'll get no help if your MAGI exceeds $145,000 for single filers or $290,000 for joint filers. If you received the reduced premium and then exceed the income ceilings, you'll have to pay back the money when you file your taxes. The IRS is also expected to provide further guidance on the definition of "involuntary termination." It's likely to cover layoffs or job eliminations but not firings with cause.

Finally, the new COBRA relief can be combined with another tax break if you lose your job. This year's recovery law allows you to avoid income tax on up to $2,400 of unemployment benefits in 2009. For more information about the COBRA premium reduction, go to http://www.dol.gov/ebsa/faqs/faq-cobra-premiumreductionEE.html or call 866-444-3272. ●

Year-End Tax Strategies

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4. Travel and entertainment. The tax law generally allows you to deduct 100% of travel expenses when you're away from home on business and 50% of the cost of business-related meals and entertainment. This can be especially helpful during the final months of the year, when you may meet with clients to plan for 2010 or take them out to thank them for their business. You could also host a holiday party for your staff and deduct 100% of the cost as long as everyone in the company is invited.

5. Business repairs. You can currently deduct the cost of necessary repairs made on the business premises, but capital improvements must be capitalized. A repair keeps the property in good operating condition over the course of its intended useful life. For example, if you replace a broken window or fix a leaky faucet, the cost is treated as a repair. Conversely, an improvement extends the useful life of the property, increases its value, or adapts it for a different use. One example is putting a new roof on the building.

6. Work Opportunity Tax Credits. Your business may claim a Work Opportunity Tax Credit (WOTC) for hiring workers from one of several designated "target groups." The credit is generally equal to 40 percent of the first $6,000 of the worker's first-year wages. The ARRA expands the list of groups eligible for the WOTC in 2009 to include unemployed veterans and "disconnected youth" between the ages of 16 and 24.

7. Business supplies. Finally, don't forget you can deduct the cost of supplies for the office, ranging from paper clips to laser printer cartridges. Stock up on routine supplies you'll need soon anyway to increase your deduction this year. The cost is deductible on your company's 2009 return even if you charge it and pay the bill in 2010.

These are just seven ways that your business can cut taxes at year-end. Others may be suitable for your situation. Meet with your tax advisors to develop the best strategies under the circumstances. ●