

Year-End Strategies To Minimize Your Business Tax Burden



One of the largest hurdles faced by business owners is staying on top of the numerous obligations to federal and state tax agencies. While effective tax planning takes place year-round, it becomes especially important at year-end when there is still time to make decisions that can result in large savings on your annual tax bill.

Although the holiday season has just begun, it is never too early to start thinking about the upcoming tax season. Remember—a tax headache is only one mistake away, be it a missed payment or filing deadline, an improperly claimed deduction, or incomplete records.

McConnell Jones Lanier & Murphy LLP has compiled a list of the top tax saving strategies that you can easily implement in the last few weeks of this year.

Top Year-End Tax Saving Tips

1. UPDATE YOUR ACCOUNTING FILES

As part of your year-end tax strategy, it is important to have a good understanding of your company's financial situation. Spend extra time ensuring your books are up-to-date and accurate. It won't hurt to book an appointment with your accountant for year-end advice, particular to your operations.

2. DEFER INCOME

Any payments your company can receive during the first week of January as opposed to December cuts your tax bill. Every cent deferred until January 2009 will not owe taxes until April 2010. Any deferral strategy will depend on your profit and losses for the year and business legal structure (LLC, partnership, corporation, etc.) Depending on your income tax rates in the foreseeable new year, deferral of income can make the best sense for many sole proprietors, partnerships, LLC's, and S corporations. Ensure your cash flow can handle the deferred income.

3. INCREASE EXPENSES

Purchase items your business will require in the immediate future to maximize deductions for this year. If you can see a need for goods and services in the first quarter of the new year, buy them now, if cash flow permits. Consider the following items for expenses:

- Office Supplies: Stock up on fax paper, printer cartridges, stationery and other office items.
- Pay Bills Early: Pay your bills before the new year in areas such as; cell services, subscriptions, rent, insurance and utilities.
- Equipment Purchases: If you will be buying new office equipment, consider purchasing now. You'll have to decide whether an immediate write off is best or spread out the depreciation over years. Consult with an accountant to examine your circumstance and company structure to maximize your deductions. In addition, your equipment will have to be in your office, "in use" by year-end.
- Other Items: This category includes: pre-payment of subscriptions, travel bookings, equipment repairs, and maintenance.

4. INVENTORY WRITE-OFFS

Depending on your accounting methods, you may wish to check inventory for goods that have been damaged or have become obsolete. The drop in market value of the inventory can provide your company with added deductions.

5. CONTRIBUTE TO A RETIREMENT PLAN

Make payments to your retirement plan or set one up before the year-end to reduce your income for this year. Check the contribution limits for your type of plan. In the U.S.: 401(k), KEOGH plan, Roth IRA, or SEP's. (For SIMPLE IRA's the deadline is set in October, too late for year-end tax planning.) Call us to discuss the best strategy.

6. MAXIMIZE YOUR ALLOWABLE DEDUCTIONS

You know your business best, so sit down and start reviewing your expenses. Business expenses, which include the cost of doing business at a profit, are deductible; specifically, the IRS says that a "business expense must be both ordinary and necessary" to be deductible. Work with your accountant to review your expenses and claim as much as you can. Don't forget to push any early 2009 charitable donations back to 2008. Make sure you get a receipt for the tax deduction.

7. PAY YOUR TAXES

Many businesses do not take the time to file returns when they are due and therefore incur steep penalties. Remember to plan and save for tax season and always pay your taxes on time! Also, both accrual and cash basis taxpayers can deduct taxes and expenses in the year paid.

ABOUT MJLM

McConnell Jones Lanier & Murphy LLP (MJLM) is a full-service professional services firm providing tax, financial planning, management consulting, engineering and technical services. Assurance and accounting services are provided through MJLM affiliate, McConnell & Jones LLP.

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