

Searching for savings

How to make the most of year-end tax planning **Interviewed by Meredyth McKenzie**

As business owners search for ways to save money while conducting their year-end tax planning, uncovering deductions is frequently a path to follow. But if you're not able to use deductions, there are other ways to reduce the taxes you owe.

"Tax rates in 2009 are still relatively low, but there are strong indications that the rates will go up," says Cathy B. Goldsticker, CPA, MST, member and co-practice leader of the tax services practice at Brown Smith Wallace LLC. "If rates increase, you may benefit more by not reducing your taxes in 2009. Anticipated law changes may present a different and preferred strategy to help reduce your tax burden."

Smart Business spoke with Goldsticker about considerations for year-end tax planning and how to take advantage of credits and deductions, while considering the effects of tax law changes.

What are some key considerations when doing year-end tax planning?

You need to understand your cash situation and have a handle on planned spending versus money needed in reserve for growth and development. You can realize tax savings with strategic spending, but only if the spending does not have an impact on the financial stability of the company.

So, the first step is to assess your financial strength with respect to your current cash position, cash to be received and cash requirements in the next 12 to 15 months. That will help you decide on a tax strategy.

Also, you need to determine where you will be spending money to grow and then determine if you can spend it in a way that provides tax benefits. This provides double the bang for your buck. You also need to manage the timing of that spending. Do you want to spend that money and deduct something now, or defer spending and deductions until the near future when the tax rates are higher?

What are the tax benefits of federal and state tax credits?

Credits are very valuable because they can reduce your tax liability dollar for dollar. One type of credit is the foreign tax credit, which credits your federal tax bill for any taxes paid to a foreign country. Another type is the rehabilitation tax credit, which is available if you're renovating, restoring or reconstructing certain older real estate.



Cathy B. Goldsticker
Member, tax services practice
Brown Smith Wallace LLC

The research and development (R&D) credit, in which the government gives you a tax incentive for doing research on new and innovative technological products, is also very beneficial. The R&D credit is based on the salaries incurred and related research expenses. We are still waiting and hoping R&D credits are extended through 2009.

The rehabilitation and R&D credits do require advanced planning to claim against income taxes, so make sure you have the proper corresponding documentation to support credits, such as adequate recordkeeping of project drawings, engineering reports and activity logs.

Missouri is very generous with its credits. You are able to resell these credits and turn them into immediate cash. You can use Missouri credits against your state tax to reduce your tax burden. This situation is beneficial to both the buyer and the seller. In contrast to state credits, federal credits cannot be sold. Federal credits can reduce taxes for the company incurring the activity but cannot be transferred without penalties.

Selling state credits is a relatively easy process. You find a buyer, fill out the appropriate paperwork and send it to the state. A correction is then made to the owner information listed in the state records. Many institutions, such as banks, can help you through this process.

CATHY B. GOLDSTICKER, CPA, MST, is a member and co-practice leader of the tax services practice at Brown Smith Wallace LLC. Reach her at (314) 983-1274 or cgoldsticker@bswllc.com.

How can capital expenditures provide tax benefits to businesses?

One way is through 'bonus depreciation.' Businesses are able to write off half the cost of new equipment or furniture in the first year, plus the amount you would have received under the normal depreciation rates. For example, let's say you purchase a \$100,000 item. You can write off \$50,000 in the first year, plus you depreciate the remaining \$50,000 over the tax life. You can get an amazing deduction in the first year under bonus depreciation. 2009 is the last year to write off taxes from bonus depreciation for furniture, equipment and other capitalized items unless this tax provision is extended.

You can also write off new or used business assets up to \$250,000 through the Section 179 expense, as long as expenses don't exceed \$800,000. This will be reduced to \$125,000 in 2010 unless this tax provision is extended. For example, let's say you purchase \$600,000 worth of equipment. You receive an initial \$250,000 Section 179 deduction, with an additional bonus depreciation write off of 50 percent of the remaining amount. You can then write off that final remainder over five or seven years.

For 2009, how much estimated income tax does a business need to pay to avoid penalties, while not spending cash unnecessarily?

If you're a C corporation and reported a loss or no income in 2008, you probably did not owe 2008 taxes last year. Therefore, you won't have anything on which to base a 2009 estimate; you will have to pay the current tax amount to avoid any penalties.

There are special rules starting this year for S corporations, limited liability companies and other small businesses whose owners have less than \$500,000 of 2008 income. If eligible, no penalties will be incurred if the lesser of 90 percent of the previous year's or current year's tax amount is paid in equal installments over the current year.

But if you're not eligible and your income is high, you have to pay 110 percent of the previous year's tax amount for timely estimates to avoid penalties. If your income is low, you pay 100 percent of the previous year's tax or 90 percent of the current year's tax to avoid penalties. <<

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