

Entrepreneurs

Top Year-End Tax Tips For Small Biz

Lawrence P. Kline 12.12.07

Before the eggnog season gets into full swing, entrepreneurs would be wise to schedule one more sit-down with their tax advisers. There are some year-end moves worth making.

Tip No. 1: Defer income and/or accelerate deductions.

Business owners have much more control over the timing of income and deductions than individuals do, so manage your cash flow by taking advantage of this flexibility. Delaying December billing or accelerating deductions may slow down or eliminate collections this month, but it also moves those receipts into next year, thus deferring taxes on such income.

Of course, if the business (or you, if your business is a pass-through entity such as an S Corp) is going to be in a higher tax bracket next year, you may want to do the reverse: accelerate income and postpone deductions. (If you defer income to the first quarter of 2008, be sure to plan your 2008 estimated tax payments accordingly.)

A reminder for cash-basis taxpayers regarding credit cards: You can deduct items bought on credit based on when they are *charged*--not when the credit card bill is *paid*. The impact is twofold: First, you don't have to rush to prepay the credit card bills by year-end to take the deduction; just pay the bill by its regular due date. Second, if you have more expenses to pay, you can preserve cash by using a credit card--and still get the deduction.

Tip No. 2: Go on a holiday shopping spree.

Businesses still shy of the Section 179 limitation for 2007 should consider shelling out for additional computers, office furniture and machinery before the end of the year. (Section 179 of the Internal Revenue Code allows businesses to deduct--rather than depreciate (typically over five or seven years)--the cost of certain property. So if you plan on buying some new assets early next year, buying them now can save you taxes today. The Section 179 limitation for 2007 is \$125,000.

Two things about Section 179 deductions: The equipment must be placed in service by the end of 2007, and this maneuver won't help if you are anticipating a loss for the year.

Tip No. 3: Document bonuses internally.

If your business is on the accrual accounting method, you have until March 15, 2008, to pay any bonuses. However, you must declare bonuses--by documenting them internally--before the end of 2007 to be able to deduct them from income. Deferring payment of bonuses until next year may also help your employees defer their own taxes. (An important exception: Bonuses payable to employees who own more than 2% of the business can only be deducted by the business when *paid* to those owners/employees.)

Tip No. 4: Tweak your retirement plan.

The end of the year is also when 401(k) administrators come down the chimney. If your plan is "top-heavy" (meaning that the percentage of dollars set aside by high-income employees relative to all plan members is too high), then your company must return a portion of that money to those executives. Company owners may avoid having to kick that money back by making additional contributions to the plan. (This stuff gets hairy, so consult your pension adviser for additional details.)

Note: Even if the recommended changes do not affect your 2007 taxes, a review now will give you a head start on items to help reduce your 2008 taxes.

Try as you might, you may not be able to completely torch your tax bill. Review your estimated tax payments to avoid underpayment penalties, and to see if prepaying your taxes before the end of the year (applicable to cash-basis taxpayers) will have any benefit to you.

Not all of these tips may apply to your business. But a good year-end tax projection will clarify which of these ideas can help you reduce your 2007 tax liability.

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