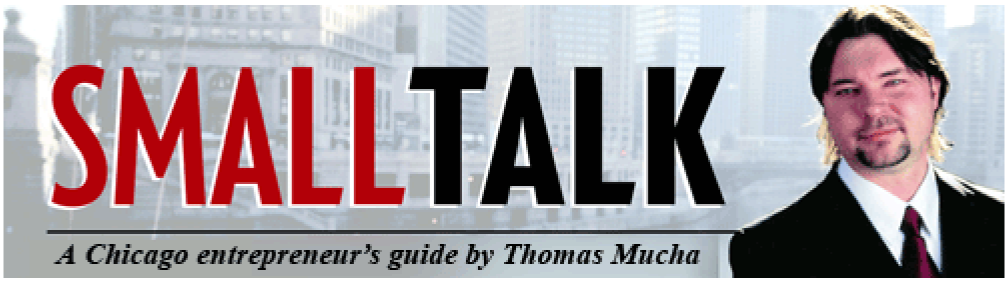
CRAIN'S
CHICAGO BUSINESS

December 19, 2006



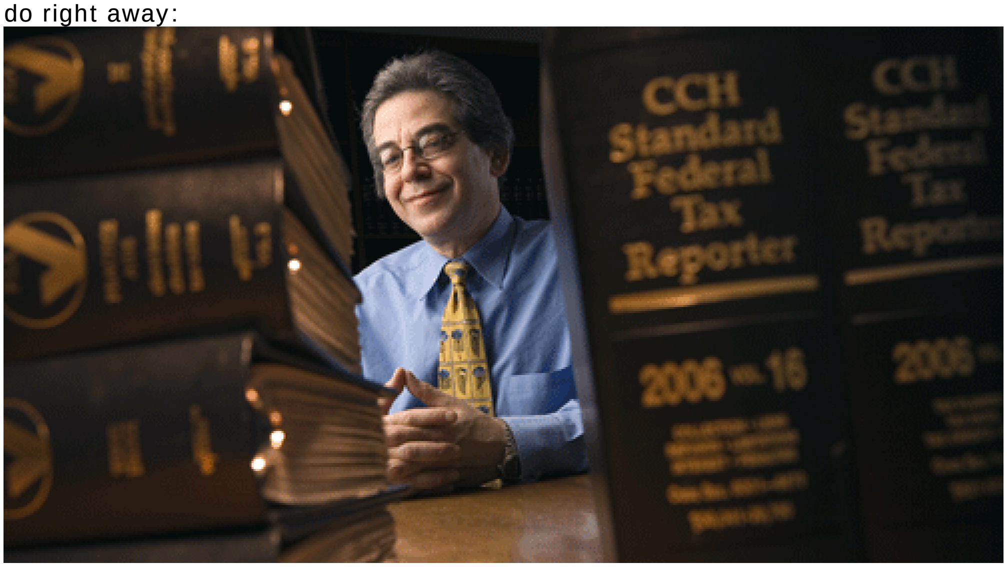
TUESDAY, DECEMBER 19, 2006

How to beat the tax man

As the end of the year approaches, it's time once again for that annual headache: yes, your taxes.

To ease your pain we asked Bennett Berg, a tax director at business services firm CBIZ in Chicago, for some end-of-the-year tips.

You've worked hard to earn that money and deserve to keep as much of it as possible. So here's what Mr. Berg, who has spent 30 years working with small businesses , suggests you do right away:



Did you know the chair you're sitting in could save you money? CBIZ small business tax maven Bennett Berg offers valuable year-end tips. Photo: Stephen J. Serio

Tax tip No. 1: Consider Section 179

The chair you're sitting in could save you money. In fact, you can write off up to $108,000 of office furniture, automobiles or trucks, machinery or other equipment you bought for your business this year. So if you haven't reached that cap yet and you plan on buying more of this stuff soon, Mr. Berg says you might as well buy it now — before the end of 2006 — because writing off the purchase will shrink your taxable income.

But once you've written them off, you can't claim depreciation. That's the point of Section 179: Small businesses can save money now and all at once instead of spreading the savings over a few years.

Tax tip No. 2: Cover your losses

If you're projecting a loss in 2006 and your business is structured as a partnership, LLC or S-Corp (see *Small Talk* column "Form follows function"), you need to "review for sufficient tax basis." Translation: Make sure your personal investment in the company, whether in capital, loans or some other form, is greater than the amount of this year's projected loss. If it's not, you can't claim the company's loss on your personal tax returns.

There's still time to tip the scale: Invest more personal funds before 2006 is over, and you'll be safe, Mr. Berg says.

Tax tip No. 3: Apply the Domestic Production Deduction

It may not be easy to say, but the Domestic Production Deduction can save you lots of money. If you are a manufacturer, construction contractor, real estate developer, architecture or engineering firm, film producer or software developer, you can take a tax deduction of 3% of your net profit — as long as at least 6% of your net profit goes to pay your employees. Why? The federal government gives you a break because your industry is facing stiffer overseas competition. In 2007, the DPD will increase to a 6% tax deduction, and to 9% in 2009.

Tax tip No. 4: Avoid underpayment penalties

If you are self-employed or own a small business, you probably don't pay yourself a regular salary. You have no W-2 papers, and little certainty as to how much money you actually make in a year. Still, the federal government asks you to estimate your personal income and pay taxes accordingly each quarter.

Mr. Berg's advice: Make sure you have paid all these taxes on time and in full, especially if you own an LLC, S-Corp or partnership. If you don't have enough tax "paid in," you could face an underpayment penalty. Right now, that's roughly 8% of the taxes you haven't paid on time. By checking on this before Dec. 31, you could possibly reduce that penalty.

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There you have it: four easy ways to soften Uncle Sam's tax bite.

Happy holidays, and happy tax season.

Additional reporting by Christina Galoozis

Got your own small business question?
Send it to smalltalk@crain.com. We'll do the rest.