

Year-End Tax Planning

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Another year is coming to a close. What a busy time of year it is! In the midst of all the chaos, I highly recommend setting aside a few hours in the coming weeks to sit down and go through some of the following suggestions as you prepare to close out the year for your small business.

It may take some hard-earned time now, but you will reap the benefits not only when your tax return is filed early next year, but also for years to come.

Update Your Accounting

It is critically important to understand the fiscal state of your company at any point of time. A check register is not going to be sufficient to show how financially secure your business is at any point of time. When it comes to making major decisions, such as when to purchase a large piece of equipment or whether to hire a new employee, it is crucial to know the effect such a decision will have on the financial well-being of the company. With regards to tax planning, if you do not know the financial status of your company, you cannot expect to be able to make informed decisions that will positively affect your tax liability.

Here are some simple steps that you can start with to help maintain a current and accurate set of books. Throughout the year, and especially now as we come to the close of the year, be sure all of your balance sheet account items are reconciled and appear reasonable. Scan through your revenue and expense items for anything that looks out of the ordinary or unreasonable. Make any adjustments needed for items that are improperly allocated or erroneous. Once you are confident

that the books are accurate, you are well on your way to making informed decisions!

Regulate Expenses

As the end of the year approaches, you may be able to regulate, to some extent, the expenses incurred by your company. Taxpayers who file using a cash basis will have more control over this than those who file on an accrual basis. Cash basis taxpayers can deduct business expenses when the expenditure is actually made. An accrual basis taxpayer, on the other hand, may only deduct the expense once the good or service is actually received.

If you are thinking about making a purchase at the beginning of next year, consider making the purchases before the end of the year to increase the current year deductible expenses. Also consider making charitable contributions before year-end.

Any capital assets purchased by the end of the year may qualify for the section 179 depreciation deduction. This will allow your company to deduct the entire expense for an asset that is normally depreciated and deducted slowly over a number of years. This year, you may be able to claim as much as \$108,000 of section 179 depreciation expense. The deduction is limited because it cannot cause the company's net income to become a negative amount.

If you carry inventory, you should do a physical count of the inventory. What inventory items are obsolete or damaged? These items should be written off. The decrease in the value of inventory will add to your deductions.



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