

Year-End Tax Tips for Small Businesses & Individuals

Small Businesses

Note: *The following year-end tax tips will apply differently to each business owner's situation and accounting method. The cash method of accounting allows for deductions and income reported for the year they are paid or received. The accrual accounting method applies income and deduction in the year incurred. Take the time to review the best strategy with us and make the most of the year-end tax planning for your small business.*

- 1. Update your Accounting:** It is more important as part of your year-end tax strategy to have a good understanding of your company's financial situation. Spend extra time ensuring your books are up-to-date and accurate. It will not hurt to plan time with us 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 2008 will not owe taxes until April 2009. Any deferral strategy will depend on your profit and losses for the year and business legal structure (LLC, partnership, corporation, etc.)
- 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 and copy paper, printer cartridges, stationary, and other office items.
 - **Pay Bills Early:** Pay your bills before the new year in areas such as; property taxes, cell phone services, subscriptions, rent, insurance and utilities.
 - **Equipment Purchases:** If you will be buying new office equipment, consider purchasing now. You will have to decide whether an immediate write off is best or spread out the depreciation over years. Consult with us 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.
- 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. Example: 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.) Feel free to discuss the best strategy with us.

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Individuals

The last few months of the year may be the time to consider delaying or accelerating income and deductions, taking into consideration the impact on both this year's taxes and next. If you expect to be in a different tax bracket next year, doing so may help you minimize your tax liability. For instance, if you expect to be in a lower tax bracket next year, you might want to postpone income from this year to next so that you will pay tax on it next year instead. At the same time, you may want to accelerate your deductions in order to pay less tax this year.

To delay income to the following year, you might be able to :

- Defer compensation
- Defer year-end bonuses
- Defer the sale of capital gain property (or take installment payments rather than a lump-sum payment)
- Postpone receipt of distributions (other than required minimum distributions) from retirement accounts

To accelerate deductions into this year:

- Consider paying medical expenses in December rather than January, if doing so will allow you to qualify for the medical expense deduction
- Prepay deductible interest
- Make alimony payments early
- Make next year's charitable contributions this year

For more information please go to: www.360financialliteracy.org

2009 Inflation Adjustments Widen Tax Brackets & Expand Tax Benefits

For 2009, personal exemptions and standard deductions will rise and tax brackets will widen because of inflation adjustments announced by the Internal Revenue Service (IRS).

By law, the dollar amounts for a variety of tax provisions must be revised each year to keep pace with inflation. As a result, more than three dozen tax benefits, affecting virtually every taxpayer, are being adjusted for 2009. Key changes affecting 2009 returns, filed by most taxpayers in early 2010, include the following:

- The value of each personal and dependency exemption, available to most taxpayers, is \$3,650, up \$150 from 2008.
- The new standard deduction is \$11,400 for married couples filing jointly (up \$500), \$5,700 for singles and married individuals filing separately (up \$250) and \$8,350 for heads of household (up \$350). Nearly two out of three taxpayers take the standard deduction, rather than itemizing deductions, such as mortgage interest, charitable contributions and state and local taxes.
- Tax-bracket thresholds increase for each filing status. For a married couple filing a joint return for example, the taxable-income threshold separating the 15% bracket from the 25% bracket is \$67,900, up from \$65,100 in 2008.
- The maximum earned income tax credit for low and moderate income workers and working families with two or more children is \$5,028, up from \$4,824. The income limit for the credit Joint return filers with two or more children is \$43,415, up from \$41,646.
- The annual gift exclusion rises to \$13,000, up from \$12,000 in 2008.

For more information please go to: www.robertfmurray.com

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