

Ending the year right

How to start preparing for your year-end tax planning **Interviewed by Meredith McKenzie**

The end of the year is fast approaching — which means it's time to start thinking about year-end tax planning, both for your business and personal accounts. Planning early will help ensure maximum benefits.

"Many items within tax planning are time sensitive," says Tim Schlotterer, CPA, director, tax and business advisory services at GBQ Partners LLC. "Tax planning is best done throughout the year. However, if you are interested in year-end tax planning, it's best to start in November or early December."

Smart Business spoke with Schlotterer regarding key items to look at when starting your year-end tax planning, as well as the risks and benefits associated with such matters.

Have there been any recent changes in taxes?

As of right now, there have not been any major tax changes in 2011. The current primary focus in Washington is related to providing assistance with unemployment and incentives for companies to hire unemployed workers.

President Obama has been pushing his \$447 billion American Jobs Act package to Americans and Congress with minimal support. With next year being an election year, history shows that it is doubtful any major tax laws will be placed into law as we approach November 2012.

What are some key things business leaders need to understand about year-end tax planning?

Good financial information is the starting point for good tax planning. It's important to understand the current financials to date and to be able to project what you think will occur toward the end of the year. Companies should plan on working with their trusted CPA in ensuring that financial information is complete and accurate. In addition to financial statements, business leaders should look at the important factors that drive growth for their business; this can help determine what type of incentives might be the best to explore.

Timing is also important. Look at income recognition and the expenses that will be incurred, and determine whether those items will be recognized before year end. It is important to work with a trusted tax advisor to assist with year-end tax planning. Book to tax differences lead many



Tim Schlotterer, CPA

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companies to a higher or lower projected taxable income.

Your trusted tax advisor should be able to assist in identifying these differences and providing proper planning in assisting with your tax situation.

What are some key items to consider when looking at year-end tax planning for your business?

One of the key areas to look at in 2011 is capital expenditures. Depending on the facts, companies have two options in 2011 available to them in expensing qualified purchases for tax purposes. The first option is under Internal Revenue Code Section 179. If a company has taxable income and capital purchases which are under \$2 million, a taxpayer can write off the first \$500,000 worth of qualified assets, either used or new. However, this does not include real property, so you have to be cognizant of the type of assets you're buying to determine whether or not they qualify. If you have more than \$2 million in purchases or want to maximize additional purchases, bonus depreciation is the second option available. You can deduct 100 percent of your qualified asset purchases in 2011. Please note that in order to claim the 100 percent bonus depreciation, the asset must

be new and placed in service on or before December 31, 2011. The generous dollar ceilings that apply this year mean that many small and medium-sized businesses that make timely purchases will be able to deduct most, if not all of their outlays for machinery and equipment. The expensing deduction is not prorated for the time that the asset is in service during the year. This opens up significant year-end planning opportunities. These tax depreciation incentives allow you to accelerate a deduction you were already going to have. If you would have depreciated these assets over a five-, seven- or 15-year period, you're able to take a deduction hopefully in year one.

What are some other unique tax credits or incentives that businesses can take advantage of this year?

Nail down the work opportunity tax credit (WOTC) by hiring qualifying workers. Under current law, the WOTC may not be available for workers hired after this year, unless extended. Qualifying individuals hired by a company can get up to a \$9,000 tax credit. You have 28 days from the time the associate is hired to submit this information in order to qualify. It's important to work with your tax adviser and human resources department to ensure that you qualify and receive the benefits. Qualifying workers include food stamp recipients, veterans, felons, families on assistance, individuals in empowerment zones and several other at-risk individuals.

Make qualified research expenses before the end of 2011 to claim a federal research and development (R&D) credit. This credit could give your company up to six-and-a-half cents for every dollar spent on qualified research expenditures and could be used as a credit to offset federal tax. Many states offer incentives as well on qualified research expenditures. For example, Ohio allows a research credit against the commercial activity tax.

Finally, while many companies have had to cut out benefits for their work force due to financial burdens, 401(k) matching is one area to consider keeping. Not only does it help with securing employment and ensuring job satisfaction, you can also get a tax deduction for making a matching contribution to a qualified plan. <<

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