

Tax Tips

For Small Business

Winter
2008/2009



Please call us at (540) 443-3880 if we can be of assistance!

Year-end Tax Strategies

Why pay more than your fair share?

Another year is drawing to a close and you need to know what you can do to save a few dollars. The most common strategy is to increase your expenses. If you are a cash basis taxpayer, this can be accomplished by simply paying all the expenses you currently owe before the end of the year. Stock up on incidental supplies if you can. Generally, as a cash basis taxpayer, you are not allowed to prepay your expenses for certain things such as rent, interest, and salaries. These expenses must be prorated over the period of use. For example, you cannot pay for next year's rent and deduct it in full in the year of payment. It must be prorated over each month.

Accrual basis taxpayers have a bit more flexibility. Unlike cash basis taxpayers, these taxpayers generally are not governed by the time of payment when they deduct expenses. Accrual basis taxpayers are allowed a deduction for an expense when the amount can be determined with reasonable accuracy, the liability to pay the expenses is in effect, and economic performance has occurred.

Another common strategy is to defer income into the following year. If you can, it may be beneficial to delay billing your customers until the end of the year. If you are on the cash basis of accounting and your customers do not pay you until after the close of that year, you are not required to include the payment until the year you actually receive the income.

Are you thinking of purchasing some equipment? If you haven't already done so, how about taking the \$179 deduction? The \$179 deduction is not prorated no matter when you purchase the equipment during the year. For 2008, you may be able to write off up to \$250,000.





Reporting Fringe Benefits on Form W-2

Employers are required to properly report fringe benefits paid to employees

Some fringe benefits provided to your employees must be reported on their W-2. Proper inclusion on the W-2 ensures accurate reporting on the employee's income tax return.

There are many ways to provide employees with tax-free or tax-favored fringe benefits. Many of them are specially provided for in the Code or regulations. Some fringe benefits, such as employer-paid health insurance and qualifying meals and lodging, are completely nontaxable to the employee and are not reported on the W-2 at all. Others, like group-term life insurance, adoption assistance, and qualified transportation fringes (e.g., parking and transit passes), are nontaxable only up to a specific limit. Benefits provided in excess of these limits are taxable and must be reported as additional compensation.

Another group of benefits consisting of qualified pension, profit-sharing, and money purchase plans offers the employee a way of saving for retirement with pre-tax dollars. Employees who participate in these types of plans must have the appropriate box on their W-2 checked because they may limit the employee's IRA deduction.

If you are providing your employees with a flexible spending account or cafeteria plan, the benefits your employees choose must also be reported on their W-2. The most common benefit chosen is dependent care assistance. The money employees designate is reported on the W-2 in Box 10. This amount is needed so the employee can properly claim the child care credit and confirm the right to the exclusion if he or she is entitled to it. Correctly reporting fringe benefits on the W-2 ensures a proper deduction for you and the proper treatment on your employee's income tax return.

Employer Identification Numbers

When do you need one?

There are several instances when you'll need to apply for a federal employer identification number (EIN). The most common instance is when you are operating a business and have employees. If you are operating a sole proprietorship and do not have employees, your social security number is all you need. If you are a sole proprietor and currently have an EIN, you will need to get a new one if you convert to a partnership or corporation.

You will not need a new EIN if you only change the name or location of your business, or if you operate at more than one business location. You may not transfer or sell your EIN, even if you are transferring your business to a spouse or other family member. Consult your tax advisor if you think you might need a new EIN.





Timing Pension Contributions

Current year contributions may be made after the close of the tax year

Did you know that contributions to certain qualified plans you provide to your employees can be made after the close of your tax year? Such plans include SEP or SIMPLE plans that allow you to make contributions on behalf of your employees by the due date of your return, including extensions. If you do not have employees, this rule still applies. Because contributions to a SEP are discretionary, you can wait until the end of the year before you decide whether to make a contribution to the SEP plan.

If you have a SIMPLE plan and have elected to match contributions that your employees make to the plan, you are required to make the contributions by the due date, including extensions, of your tax return. However, the SIMPLE plan must be set up before October 1 for the year in which the deduction is claimed.

There are other types of qualified plans that you may have in your trade or business, such as a profit-sharing plan or Keogh plan. If you have a money purchase Keogh plan, contributions are subject to the minimum funding rules. These rules state that contributions must be made on a quarterly basis. Knowing the rules will save you from possible penalties for failure to make contributions on time.

Leasing Assets to Your Corporation

A simple strategy may save you some tax dollars

A business does not have to own all of its operating assets. Leasing your personally owned property, such as a building, vehicle, or equipment to your incorporated business may provide a tax savings. Similarly, another corporation, a partnership, or a family business in which you have an ownership interest may lease assets to your

QUICK TIPS

1 Employers who allow personal use of employer-provided vehicles must include the value of the personal use in the employee's wages by the end of the year.

2 Your employer contributions to a Keogh, SEP, or a SIMPLE plan are due by the time you file your tax return unless you have a valid extension. If you are on extension, you have until the extended due date to make the contribution.

3 The maximum employee elective deferral amount for a §401(k) or §403(b) plan is \$15,500 for 2008.

4 Employers are required to issue W-2s to employees by January 31 of each year.

5 The standard mileage rate for business travel in 2008 is 50.5 cents per mile until June 30, 2008. For July 1, 2008 to December 31, 2008, the rate is 58.5 cents per mile.

6 Starting a new business? There are many costs associated with the start-up of a business that can be deducted once your business opens. To qualify as a start-up cost, the expense must be one that you could deduct if you were already in business. Examples include travel to suppliers, training for your new employees, advertising, utilities, and other pre-opening expenses. You are allowed to deduct the first \$5,000 of expenses you incur in the first year of business. The remaining start-up expenses are deducted over a remaining period of not less than 180 months.

7 Are you giving gifts to your clients this holiday season? You are allowed a deduction for up to \$25 for each business-related gift.

8 Farmers and fishermen can skip their last estimated tax payment if they file their tax return by March 2, 2009, and pay any tax due. Otherwise, they can pay their last estimated tax payment by January 15, 2009, and file by April 15, 2009.

business. You may not want your corporation to own a lot of assets if you are in a business where lawsuits are common. Leasing instead of owning is one way to insulate assets from potential creditors.

To avoid problems with the IRS, lease terms between you and your corporation must be fair to both sides. The contract should be legally binding and the payments should be set at the same rate you would charge anyone else. Lease payments are deductible expenses to your corporation. While lease income is taxable to you, you in turn can deduct the costs of ownership, including mortgage interest, maintenance, real estate taxes, repairs, and depreciation.



Advantages of SEP or SIMPLE Contributions for Self-Employed Taxpayers

Reduce your taxable income and save for your retirement tax-free

One of the best things you can do is subsidize your retirement plan while saving tax dollars. One of the easiest ways to accomplish this is to set up a SEP or SIMPLE plan for yourself and your employees. The contributions you make on behalf of your employees are a business deduction. If you are self-employed, the contribution for yourself reduces your adjusted gross income. You are not allowed to reduce self-employment tax by a contribution to your retirement plan, however.

If you are a partner in a partnership, your contribution will be passed through to you on Schedule K-1. You'll take the deduction as an adjustment to your gross income on the front of your Form 1040. The partnership is not allowed a deduction for the contributions it makes on behalf of a partner.

Hiring New Employees?

Verify their social security numbers online

Having incorrect identification numbers for employees continues to be the number one problem faced by employers, according to the IRS. An incorrect identification number may result in a notice to you from the IRS requiring you to do back-up withholding.



The Social Security Administration (SSA) has a website that allows an employer to verify that a new employee's social security number (SSN) is correct. You can verify up to ten names and SSNs online and receive immediate results. This option is ideal for new hires.

You can also upload batch files of up to 250,000 names and SSNs and receive results the next government business day. This option is ideal if you want to verify an entire payroll database or if you hire a large number of workers at a time.

While this service is available to all employers, it can only be used to verify current or former employees and only for Form W-2 reporting purposes. Check out this feature on the SSA's website at www.ssa.gov/employer/ssnv.htm.