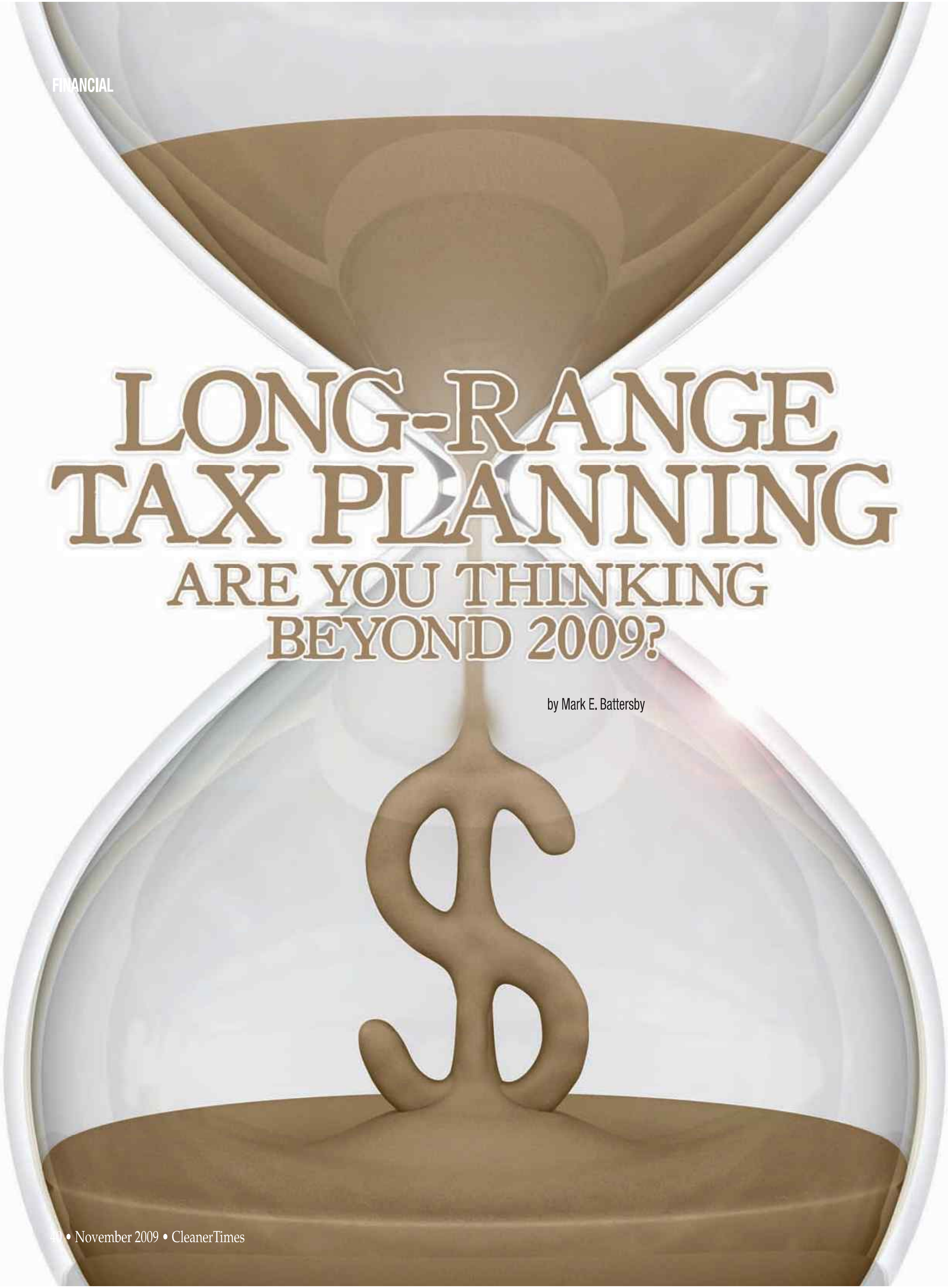

LONG-RANGE TAX PLANNING

ARE YOU THINKING BEYOND 2009?

by Mark E. Battersby

Now is the best time to think about reducing the pressure cleaning operation's tax bill even lower than the point the economy may have driven it to, and, of course, to keep that tax bill at its legal minimum for many years to come.

While many of us rely on the advice and help provided by tax professionals or utilize software programs to ensure a low tax bill, the real goal should be a low tax bill for not just this tax year but year-after-year. The best guarantee of consistently low tax bills, this year, next year, and so on down the road is, of course, tax planning.

Tax planning is easy: the more tax deductions taken, the lower the pressure cleaning businesses taxable income will be—at least for this tax year. Of course, ignoring potential tax deductions this year might mean significant savings in later years when profits—and tax bills—are higher. Either way, in order to count, the time to make the moves necessary for those low tax bills is before the end of the tax year.

Basic Tax Planning Basics

When thinking about any type of tax planning, every pressure cleaning contractor, equipment dealer, and supplier should keep in mind that although the IRS may occasionally disagree, the courts strongly back every taxpayer's right to choose the course of action that will result in the lowest legal tax liability. Thus, as the end of the tax year fast approaches, every business faces several different options as to how to complete certain taxable transactions.

Our tax system has graduated rates that increase along with the income of the pressure cleaning business at various tax rates. Thus, one strategy for saving taxes means reducing the tax bracket of the pressure cleaning operation. Getting the most from the temporary 15-percent tax rate for dividends, means finding another way to reduce corporate level income—and taxes.

Obviously, a pressure cleaning contractor, dealer, or any business owner, cannot literally reduce their federal income tax rate. They can, however, take actions that will have a similar effect. For example:

Choosing the optimal form of organization for the business (such as sole proprietorship, partnership, corporation, or S corporation). Although not a year-end tax planning strategy, this option deserves attention in the overall tax planning process especially in light of the current, and temporary, 15-percent tax rate on dividends paid by incorporated pressure cleaning businesses.

Structuring transactions so that payments received are capital gains. Long-term capital gains earned by non-corporate taxpayers are subject to lower tax rates than other income.

Shifting income from a high-tax bracket individual (such as you, the business owner), to a lower-bracket individual (such as your child). One fairly simple way to accomplish this is by hiring your children. Another possibility is to make one or more children partners in the business, so that net profits are shared among a larger group.

While the tax laws limit the usefulness of this strategy for shifting "unearned" income to children under the age of 14, some opportunities to lower tax rates still do exist. Remember, however, the time to think about those strategies is during the course of the tax year.

Consistently Consistent

Although the goal is usually to reduce taxes this year, to be really effective the tax bracket should be consistent year-after-year. If income is up this year but expected to be down next year, for instance, a contractor, equipment dealer, or supplier might want to postpone asset sales or other unusual transactions until next year when the additional profits may not be as likely to put the operation into a higher tax bracket. Or, conversely, if income and profits are down this year, disposing of unneeded equipment or business assets via a profitable sale just might generate extra income, income taxed at the pressure cleaning operation's current low tax rates.

Depending on the circumstances, a number of legitimate strategies a pressure cleaning business can employ before year's end will help them remain in the same bracket this year, next year, and for many years thereafter. Those basic year-end savings strategies include:

> Although tax planning should be a year-round process, a number of year-end strategies can reduce not only this year's tax bill, but future tax bills as well.

- *Delaying Collections:* A cash-basis pressure cleaning operation can delay year-end billings or processing of credit card receipts until late enough in the year so payments will not come in until the following year.
- *Accelerate Payments:* Wherever possible, prepay deductible business expenses, including rent, interest, taxes, insurance, etc. Also, keep in mind that the tax rules limit tax deductions for some prepaid expenses.
- *Accelerate Large Purchases:* Close the purchase of depreciable personal property or real estate within the current year.
- *Accelerate Operating Expenses:* If possible, accelerate the purchase of supplies or services or the making of repairs.

Naturally, what a contractor, dealer, or supplier can do depends a great deal on the accounting method used by the operation. A cash basis contractor, for example, deducts expenses as paid and receipts become income when received—or made available. An accrual-basis pressure cleaning business realizes income when billed and expenses when incurred—regardless of when income is actually received or when payment is made.

This Year's Law Changes

The American Recovery and Reinvestment Act (ARRA), earlier this year, extended a number of expiring provisions and created a few more that will affect the year-end planning process. For example:

- First-year 50-percent bonus depreciation: ARRA extended the 50-percent bonus first-year depreciation allowance available for 2008 for 2009.
- Increased Section 179 expensing: During 2009, pressure cleaning businesses can choose to expense and immediately deduct up to $250,000 of the cost of qualifying property and equipment. The $250,000 maximum expensing amount is reduced if the cost of all Section 179 property placed in service in 2009 exceeds $800,000.
- S corporation built-in gains holding period. For tax years beginning in either 2009 or 2010, ARRA eliminates the corporate level tax on the built-in gains of an S corporation that converted from regular 'C' corporation status at least seven tax years before the current tax year.

Going, Going, Gone

Making year-end planning more urgent than usual, a number of provisions in our tax law expire in 2009. Among the expiring provisions are:

- The tax credit for research and experimentation expenses
- Increased alternative minimum tax (AMT) exemption amounts
- Fifteen-year straight-line cost recovery for qualified improvements made to leased business property, and qualified retail improvements
- Additional first-year depreciation for 50 percent of basis of qualified property
- Increase in expensing to $250,000/$800,000
- Empowerment zone tax incentives
- Tax incentives for investment in the District of Columbia
- Renewal community tax incentives
- The FUTA surtax of 0.2 percent
- Reduced estimated tax payments for small businesses

Tax Tail Should Not Wag the Dog

There is a great deal of pressure in many pressure cleaning businesses to continue cutting costs, including taxes. This coincides with increased scrutiny of tax returns on many levels of government. Identifying opportunities for tax deductions without running afoul of cash-strapped, state and local tax authorities should play a role in the planning process.

Whether or not the pressure cleaning operation is facing a large tax bill or severely lower taxable income, professional advice is almost a necessity. There should, however, be no uncertainty regarding the need for planning to minimize the bite of taxes this year as well as in future tax years.

On a similar note, the financial or operational strengths of a business transaction should always stand on their own, aside from any tax benefits derived from them. There is also the question of whether a tax deduction should be taken or if legally feasible, ignored.

An excellent illustration of the flexibility of our tax rules are those governing bonuses. A pressure cleaning business operating on the accrual basis has the opportunity to fix the amount of employees' bonus payments before January first—but to pay them early next year. Generally, the bonuses are not taxable to employees until 2010, but are deductible on the pressure cleaning operation's 2009 tax return—so long as announced before the end of 2009 and paid before March 16, 2010.

On the other hand, while few businesses are in a position to pay employee bonuses, a pressure cleaning business may benefit by delaying income until next year. Remember, however, there is constructive receipt when income is made available to the pressure cleaning business.

Tax Planning All the Time

Although tax planning should be a year-round process, a number of year-end strategies can reduce not only this year's tax bill, but future tax bills as well.

The owners and managers of every pressure cleaning business should also be taking additional steps to ensure the success of the operation in 2010.

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