

Business Tax Strategies

2011 Year-End Tax Planning



The end of the year is often the preferred time for tax planning. You may have the flexibility to shift income and deductions to your tax benefit. However, tax planning in 2011 is shrouded in doubt as talk of major tax reform heats up. At this writing, there has been no definitive resolution of the federal budget dilemma by the government, which has commissioned a "super panel" to make recommendations. This could ultimately result in new tax legislation.

Nevertheless, several tax strategies for businesses appear to be relatively "safe" in this uncertain environment. Here are some prime examples.

Tax Strategies

Business assets: Under Section 179 of the tax code, a business may "expense," or currently deduct, the cost of qualified business assets placed in service during the year. For 2011, the maximum expensing allowance is \$500,000. Also for 2011, a limited amount of expensing may be claimed for qualified leasehold improvements. In addition, a business may still qualify for 100 percent "bonus depreciation" deductions for certain new (but not used) assets placed in service before 2012. These two tax breaks may be combined for an unprecedented write-off in 2011.

Bad business debt: In these uncertain economic times, a business may have difficulty collecting outstanding debts. As a general rule, the bad debts of a business may be deducted from gross income when they become worthless. Business owners should keep records of all collection efforts, such as letters, phone calls, e-mail communications and collection agency activities. This documentation can support deductions based on the worthlessness of the debts.

Repairs vs. improvements: If you simply repair a business asset, you may currently deduct the entire cost. In contrast, the cost of an improvement to business property must be capitalized. When possible, you might make minor repairs before the end of the year to offset your taxable income for 2011. *Caveat:* If you make repairs and improvements at the same time, the IRS may lump in the cost of the repairs with the improvements as part of a general betterment plan. In that case, the repairs are not currently deductible.

Section 199 deductions: A deduction under Section 199 may be available to a business entity with qualified domestic production activities. For 2011, the so-called "manufacturing deduction" is equal to the lesser of 9 percent of taxable income from qualified production activities or taxable income. Do not think that the Section 199 deduction is limited to traditional manufacturing firms.

Business supplies: A business can generally deduct the routine supplies it purchases during the year, even if some of the supplies are not used until the following year. When appropriate, your company might buy more supplies in December to increase its deduction for 2011.

Business tax credits: Your small business may be eligible for several tax credits, including Research and Development credit, Small Employer Health Insurance credit, and Disabled Access credit. For a complete list, visit the [IRS web site](#).

Entity Basis: If you own an interest in a partnership or S-corporation, you may need to increase your basis in the entity so that you can deduct a loss from it for this year.

Remember that this is only an overview of several common year-end tax-planning strategies. Also, as noted above, the tax laws are subject to change. However, one item that does not change is the advantage of good organization of financial records. Providing your tax advisor with all of your relevant tax information in a timely manner could not only potentially reduce your taxes, it also makes filing your tax return by the filing deadline a less daunting task.

###

We hope this information is helpful. If you would like more details, please contact a Kerkering Barberio professional tax advisor at 941-365-4617.