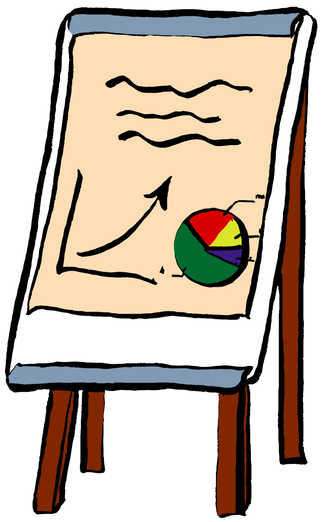

A TAX PLANNING WORKBOOK

2018 & Beyond

Tax Planning and Strategies Are Legal

"… the courts have stated over and over that nobody owes any public duty to pay more taxes than the law demands.
Every individual has the right to arrange their affairs in such a manner that they pay the lowest legal amount of tax"
(Chief Justice Learned Hand)

The Tax Planning Workshop

This workbook is a hands on process. Our intent is to show you the process of producing a tax plan for your business.

Tax Planning is to make you aware of**:**

- Some of the many tactics allowed by tax law.
- Ways you can maneuver business activities to bring taxes down both business and personal.
- The process of developing a tax plan.

Getting started:

- You will need your business' financial statements year to date. These statements then need to be projected to the end of this calendar year.
- Answering a group of questions will provide additional information used in developing your plan.
- Included worksheets help to select tax tactics you may want to use.
- All selected tactics are governed by IRS rules you will be required to follow those rules to implement the tactic and there will be costs to implement.

Most likely you will not be able to finalize your plan until you know how to activate the tactics and cover their costs. However, you will be well on to planning this year and next.

The Business Net, Ltd. Can locate the rules and details on any tactic you may wish to use. The costs for this tax research can range from $25 to $250 per tactic.

How the "Tax Game" Works

The objectives of the Tax Game within tax laws and regulations legal limits are to:

- Reduce
- Delay
- Or Eliminate taxes.

Taxes are not fixed – taxes are negotiated

- Business taxes are not fixed but are actually negotiated. Management of tax costs will keep money in the business.

- Tax planning is complex and involves many business decisions and processes.

- No matter which tactics you choose, you will still need know how to structure to meet the rules and if the company can pay the costs.

- Substantiating compliance to rules requires tracking costs and maintaining any receipts for those costs.

The keys to tax planning

- Requires active involvement of managers/owners, this is part of the responsibilities of the owner/manager in managing the business.
- All business decisions and projections have tax consequences.
- Must account for all types (characters*) of incomes.
- Must include all active "players"*.
- Players in the tax game are adjustable, they may be added, subtracted or modified to facilitate compliance with the rules.
- Timing* of tactics and players must meet specific structuring rules and legalities.

*See definitions on next page.

Tax Management Terms Definitions:

Big Data Big data is the name for all of the information stored in various places on the

Data Mining This is the process of finding information from various sources not necessarily related to the purpose for which that information was stored on the Internet. This information is available to the IRS and can be used reviewing of your taxes.

Computer auditing Since IRS is now using computers for auditing it is more important than ever that you be able to verify tactics. (i.e. have good accounting)

Identifying the aspects of income – the amount of tax that applies to income is dependent on three factors: Quantity, character, and timing.

- **Quantity** The amount of earnings that will be taxable. Modifying this number is very much controlled by the **accounting method** - the accounting method can have a substantial effect on when the incomes are taxed and the financial tracking system is a primary tool in managing tax quantity.

- **Character** Which taxes will apply to taxable income. Each type of taxable income has its own tax structure. Capital gains and dividends are taxed only once. Wages can be taxes three times (income tax, FICA and Medicare, and Unemployment insurance).

- **Timing** When earnings become taxable.

Strategies – Strategies are the plan of play that you need to develop. An effective tax strategy must take into account: player structure and the <u>quantity</u>, <u>character</u> and <u>timing</u> of taxable income. All strategies need to be able to substantiate activities.

Players - The "**Players**" in this game are all of the entities that affect the outcome of your tax cost, including yourself and any business or investment activities you may be involved with and any long term pension plans you own.

Player Structure – Structure is how the transactions or entities are set up and how entities choose to be taxed.

- **Transaction structuring** - the structure of a transaction, relationship or entity is critical. Incorrect structure may nullify a tax tactic.

- **Transaction Timing** - many tax tactics are time sensitive.

- **Business entity structure** - critically important to a tax cost management strategy is the legal structure of business entities, and legal relationships of entities.

- **Choice of entity determines type of taxation –** different types of entities by default determines how the entity is taxed - certain legal entities have the option to elect how they will be taxed, that is which taxes will apply.

Tax planning positions

(We have named each situation your business may be in)

Celebration The business has had a banner year, profits were high, expenses were under control and have all been paid, and there is lots of cash in the bank.

Up & coming The business has had an atypical year with good cash flows, expenses have been under control and are paid current, and the business has a reasonable amount of cash in the bank.

Average A typical year with average cash flows and expenses. The business appears to have a taxable profit. There is a minimum of cash available.

Desperation A minimal or poor year. Showing a loss for the year and cash availability is minimal or non-existent.

Where Do You Go From Here?

WE start by first working with your primary business, and after that we will turn to your personal tax situation which will be affected by the business results.

The first two worksheets will set the stage for planning and will indicate the name of your business' financial position. This needed when selecting tax tactics for your plan.

The first worksheet will help you decide which name fits your business. Additional questions may come up as you work through the planning.

The second set of worksheets will give you information on the company's financial status, and identify available resources.

Additional worksheets will be used to develop and tract aspects of your tax plan.

Worksheet 1

A lot of information needs to be considered. These questions will give an overall position, some questions will lead to possible tactics.

- Did your business have a profit <u>last</u> year? Yes ____ No ____
  - If no, what was the amount of your loss $ ___________
- Did you have a business loss this year? Yes ____ No ____
- Do you invoice your customers? Yes ____ No ____
- Do you usually have payables? Yes ____ No ____
- Does your business operate from your home? Yes ____ No ____
- What do you expect the business to do next year? Increase ____ Decrease ____ Same ____
- Did your business sell any assets? Yes ____ No ____
  - If yes, did the sale make a profit? Yes ____ No ____
- Does your business have an established pension plan? Yes ____ No ____
- Does your business need new equipment? Yes ____ No ____
- Did the business acquire new assets? Yes ____ No ____
- Did you have non-business tax events this year? Yes ____ No ____
- Do you have a budget for the coming year? Yes ____ No ____
- Do you have business use of vehicle not owned by the business? Yes ____ No ____
- Did you make any estimated tax deposits for this year? Yes ____ No ____

  How much and when $______________, Dates: _____________________

  ____

Use the following Notes page to indicate your business status name, and to jot down any questions that come up.

Worksheet 1 – Cont.

Notes of additional Worksheet 1 information:

Worksheets 2 - Part 1

Income and Expense statement most recent month end unadjusted

To assist you to locate the numbers for this worksheet on your P&L the attached sample P&L is color coded by section, you will use the number from your projected P&L for the same sections. (Using only category totals)

Income *The amount on this line is the total from the RED section corresponding*

Line **2-A-1** $______________100%

Direct costs: *Total ORANGE section* line **2-B-1** $ ______________ _____%

Gross Margin (Subtract B from A) Line **2-C-1** $ ______________

Operating expenses: *The YELLOW section* Line **2-D-1** $ ______________ ____%

Non-operating expenses: *These expenses should not be in the **ORANGE** or **YELLOW** sections of your P&L, should be in the **GREEN** section*.

Depreciation from your P&L **(Line 2-E-1)** $ ______________ ____%

Note: If your P&L includes depreciation in the yellow section you need to subtract that form line C above or enter $0 on this line.

Loan interest from your P&L **(Line 2-F-1)** ______________ ____%

Note: If your P&L includes interest in its yellow section you will need to subtract it form line C above or enter $0 on this line.

Total expenses (Add lines D an E) **(Line 2-G-1)** $ ______________

Non-operating incomes: These amounts should not be included in operating income on your P&L, if they were you should subtract these amounts from the amount on line A above. These amounts should be in the **BLUE** section and may be taxable at a different rate from other incomes.

Interest earnings **(Line 2-H-1)** $ _______________ ____%

Sale of assets **(Line 2-I-1)** _______________ ____%

Insurance proceeds **(Line 2-J-1)** _______________ ____%

Total non-operating income **(Line 2-K-1)** $ ______________ ____%

Taxable income (*Line **2-C-1** Minus Lines **2-D-1** and **2-G-1** Plus Line **2-K-1)***
(Line 2-L-1) $______________

Estimated tax *Multiply Line L by 21%* **(Line.2-M-1)** $ ______________

Note: If your Profit & Expense statement does not have the percentages you will need to calculate them – divide the expense number for each category by the income number.

Part 2 – Part 1 (cont.)
Sample of P&L showing income and expense groupings

	Jan - Dec 18	% of Income
Ordinary Income/Expense		
Income		
4070 · Services		
4072 · On-line product	-0.01	0.0%
4073 · Consulting Income	7,866.15	39.98%
Total 4070 · Services	7,866.14	39.98%
4060 · Commissions, Income	11,811.00	60.02%
Total Income	19,677.14	100.0%
Cost of Goods Sold		
5700 · Marketing		
5710 · Marketing materials	1,839.76	9.35%
5740 · Advertising and Promotion	528.00	2.68%
Total 5700 · Marketing	2,367.76	12.03%
5720 · Promotional costs	16,374.44	83.22%
5730 · Web Site Maintenance	653.99	3.32%
Total COGS	21,763.95	110.61%
Gross Profit	-2,086.81	-10.61%
Expense		
6120 · Bank Service Charges	133.86	0.68%
6260 · Printing and Reproduction	589.11	2.99%
6240 · Miscellaneous	143.22	0.73%
6350 · Meals and Entertainment	450.02	2.29%
6550 · Office Supplies	23.84	0.12%
6900 · Travel Expense		
6910 · Airline tickets	6,622.66	33.66%
6920 · Lodging	4,329.79	22.0%
6930 · Cabs and Ubers	524.03	2.66%
6940 · Meals while Traveling	1,387.64	7.05%
6950 · Fuel for rental car	7.63	0.04%
6970 · Rental car	76.53	0.39%
6980 · Parking while Traveling	633.02	3.22%
6990 · Misc. travel costs	156.13	0.79%
Total 6900 · Travel Expense	13,737.43	69.81%
Total Expense	15,077.48	76.62%
Net Ordinary Income	-17,164.29	-87.23%
Other Income/Expense		
Other Income		0.0%
Other Expense		
8010 · Other Expenses		
8210 · Finance Charge	122.82	0.62%
8550 · Depreciation Expense	320.24	1.63%
Total 8010 · Other Expenses	443.06	2.25%
Total Other Expense	443.06	2.25%
Net Other Income	-443.06	-2.25%
Net Income	-17,607.35	-89.48%

Worksheet 2 – Part 2

This worksheet is used to enter estimated increases for the balance of the year. The worksheet begins with your estimated additional income. The income number is then used to calculate the other estimated increases. To obtain other changes estimated additional income multiplied by the percentages from the summarized P&L statement for each category.

Income **(Line 2-A-2)** $ _________ 100%

Direct costs: **(line 2-B-2)** $ ______________

Gross Margin $ ______________

Operating expenses**: (Line 2-D-2)** $ ______________

Non-operating expenses:

Depreciation **(line 2-E-2)** $ ______________

Loan interest **(line** (**-F-2)** ______________

Total expenses (Line 2-A-2 minus 2-B-2 and 2-D-2 and 2-e-2 and 2-f-2)

$ ______________

Non-operating incomes:

Interest earnings **(line 2-H-2**) $ _______________

Sale of assets **(Line 2-I-2**) _______________

Insurance proceeds **(Line 2-J-2**) _______________

Total non-operating income $ ______________

The numbers on this worksheet will be added to the previous summary worksheet Part 1 to give the numbers on the next Worksheet 2, Part 3

Worksheet 2 – Part 3

Projected Income and Expense statement to year end

All entries on this form are totals from Part 1 and Part 2.

Income **(Line 2-A-3**) $ _______________

Direct costs: **(Line 2-B-3**) $ _______________

Gross Margin $ _______________

Operating expenses: (**Line 2-D-3**) $ _______________

Non-operating expenses:

Depreciation **(Line 2-E-3**) $ _______________

Loan interest **(Line 2-F-3** _______________

Total expenses $ _______________

Non-operating incomes:

Interest earnings **(Line 2-H-3**) $ ________________

Sale of assets **(Line 2-I-3**) ________________

Insurance proceeds **(Line 2-J-3**) ________________

Total non-operating income $ _______________

Taxable income $ _______________

Worksheet 3, Part 1

BALANCE SHEET FROM MOST RECENT MONTH END

Cash on hand - The ending account balances in checking/savings.

(Line 3-A-1) _____________

Current Assets

Accounts receivable. _____________

Inventory, your COST.** _____________

Other current assets:

Loans to employees not owner(s) _____________

Prepaid expenses (Accrual accounting only) _____________

Other ______________________ (describe) _____________

Loans to shareholders/owners _____________

Other investments:

____________________________ (Describe) _____________

Fixed Assets:

Prior fixed assets being depreciated _____________

Cost & date of all new business assets.

Description	Date acquired	Cost
______________________________	_________	_____________
______________________________	_________	_____________
______________________________	_________	_____________

Total new assets costs **(Line 3-B-1)**

_ Loans from shareholders/owners. _____________

Equity:

Capital accounts of owners _____________

_ New capital/investment added. _____________

_

Cash shown in income that was not income.

(Line 3-C-1) _____________

(Please describe)

____

Worksheet 2 – Part 2

Notes

Worksheet 3, Part 2

BALANCE SHEET PROJECTED CHANGES TO YEAR END

Cash on hand - Change projected to year end.

(Line 3-A-2) ______________

Current Assets

Accounts receivable change projected to year end (accrual accounting).

____

Inventory change projected to year end, your COST.**

____

Other current assets projected changes to year end:

Loans to employees not owner(s) ______________

Prepaid expenses (Accrual accounting only) ______________

Other ______________________ (describe) ______________

_ Loans to shareholders/owners ______________

_ Other investments:

____________________________ (Describe) ______________

Fixed Assets:

Prior fixed assets being depreciated – NOT needed here

Cost & date of all additional new business assets to be acquired by year end.

Description	Date acquired	Cost
______________________________	__________	______________
______________________________	__________	______________
______________________________	__________	______________

Total new assets costs **(Line 3-B-2)**

_ Loans from shareholders/owners. ______________

Equity:

Capital accounts of owners ______________

_ New capital/investment added projected to year end.

____

_

Cash shown in income that was not income.

(Line 3-C-2) ______________

(Please describe)

____

Worksheet 3, Part 3

BALANCE SHEET PROJECTED TO YEAR END

All numbers on this page are the original month end balance sheet numbers adjusted by the projected numbers on worksheet -2-2

Cash on hand - **(Line 3-A-3)** ______________

Current Assets

Accounts receivable (accrual accounting only) ______________

Inventory at year end, your COST.** ______________

Other current assets:

Loans to employees not owner(s) ______________

Prepaid expenses (Accrual accounting only) ______________

Other ______________________ (describe) ______________

_ Loans to shareholders/owners ______________

_ Other investments:

___________________________ (Describe) ______________

Fixed Assets:

Prior fixed assets being depreciated ______________

_ **Cost & date of all new business assets**.

Description	Date acquired	Cost
______________________________	_________	______________
______________________________	_________	______________
______________________________	_________	______________

Total new assets costs **(Line 3-B-3)**

_ Loans from shareholders/owners. ______________

Equity:

Capital accounts of owners ______________

_ New capital/investment added. ______________

_

Cash shown in income that was not income.

(Line 3-C-3) ______________

(Please describe)

____

Worksheets 4. Selecting Tax Tactics

Worksheet 4 A - Managing income tactics

Questions and Opportunities:

- You understand for how long the current situation will last and have taken that information into account in your plan.
- Know of any carryover expenses or credits from last year's tax returns?
- Can receivables be moved to next year (legally) and that will not cause worse problems in that year?
- Can receivables be moved to this year (legally) and that will not cause worse problems next year?
- Is it your plan that taxes be minimized to the extent possible, for both the business and the owner(s), and that will not cause problems next year?.

Tactics choices available:

- Defer part of the income due to next year if it will be lower profits and not increase next year's profits.
- Accelerate receivables to this year to increase profits.
- Sell company assets that will show a profit from the sale.
- Sell company assets that will show a loss from the sale.

Tactic	Dollar change
Accelerating income to current year	$ __________________
Shifting income to following year	__________________
Sale of company assets at a profit	__________________
Sale of company assets at a loss	__________________
______________________________	___________________
______________________________	___________________
Total change in income (**Line 4-A)**	$ __________________

Worksheet 4 B-1 - Managing expenses tactics

Questions and Opportunities:

- Have all expenses that you may have paid personally, i.e. insurance, license, repairs, etc. been included in the P&L?
- Are there mileage reimbursements for business use any vehicle(s) not owned by the business? This requires knowledge of the business miles on those vehicles.
- Can or should you maximize pension deferrals?
- Can and should the company make asset acquisitions to meet needs? These new assets must be placed in service before year end, and that this does not reduce cash availability to critical.
- Is the company considering year end, or delayed payroll bonuses?
- Does the company have an accountable plan for reimbursing employee expenses?
- For the Desperation situation it is important to look at the possibility of decreasing the apparent income to the owner(s) to reduce their tax liabilities?
- Can you make your business more disabled access friendly?
- Can you increase research and development expenses?
- Is your business located in a disadvantage zone?

Tactics choices available:

- Acquisition of fixed assets that will be needed to expand the business, and determination of when they should be acquired and placed in service.
- Pay differed salaries to owner/managers for years when they were underpaid.
- Pay bonuses to key employees, and institute future performance based bonus plan.
- Maximize payroll/pension deferred compensation programs.
- Accelerate expenses to current year, if this will not have a negative impact on the next year.
- Contribute additional to State unemployment fund to reduce rate.
- Prepay state estimates for next year.
- Increase or add charitable donations.
- Complete deferred maintenance projects.
- Increase owner compensation to make up for prior low years.
- Acquisition of fixed assets for the business before year-end, presuming payments may be differed.

- that payroll/pension deferrals be used where possible especially if you can use delayed payment, and the cash flows will improve by payment time
- Reduce owner(s) compensation.
- Prepay professional costs.
- Pay off standing accounts payable, providing cash is available and you are a cash basis business.
- Complete deferred maintenance projects, if cash available.
- Gather all employee expense reimbursement forms and complete the reimbursements.
- Increase research and development expenses
- Upgrade your business facilities for disability person's access.
- Hire workers who have been unemployed for many months.

Tactic	Dollar change
Accelerating current year expenses	$ ____________________
Deferring current year expenses	____________________
Adding expense costs not already in the system	____________________
Adjusting expense costs not properly included	____________________
Acquisition of company assets (Non-depreciated)	____________________
Deductible contributions (restricted deductibility)	____________________
Declared bonuses payable after year end	____________________
______________________________	____________________
______________________________	____________________

Total change in expenses **(4-B-1)** $ ____________________

Worksheet 4 B - 2 – Managing deferred compensation expenses tactics

Questions and Opportunities:

- Is it time for the company to establish a pension plan?
- If the company has a pension plan, is it time to increase the company matching contributions?
- If the company does not have a pension and wants to establish one can it still be set up and/or funded this tax year?
- If the company has a 401-k or Simple IRA plan have the employees made salary reduction contributions which would cause the company to make matching contributions? If so has the company decided at what lever it will match?
- Is the company considering declaring an employee bonus? And, will that bonus be paid this year or next?
- Is it time for the company to establish a company employee reimbursement plan for health costs? Or does it have one already?

Tactics choices available:

- Increasing company contributions to an existing pension plan.
- Decreasing company contributions to an existing pension plan.
- Establishing a company pension plan.
- Chang the type of pension plan.
- Establish an employee medical reimbursement plan, and pay the reimbursements not already paid.

Tactic	Dollar change
Employee bonuses to be paid next Jan.	$ ________________
Owner year-end bonus paid this year	_________________
Company matching pension contributions (this Yr/Next Yr)	_________________
Adoption of an SEP for this year	_________________
Establish new 401-k plan beginning this year	_________________
Funding of a defined benefit/contribution plan	__________________

Shift from a Simple IRA to a 401-k plan ____________________

Reimbursement of employee medical costs ____________________

____________________________________ ____________________

Total deferred compensation increase **(Line 4-B-2)** $ ____________________

Worksheet 4 C – Managing depreciation tax tactics

Questions and Opportunities:

- Do you have access to information about assets acquired this year, what, when and their costs?
- Are new asset acquisitions that are needed known, and can the timing can be defined?
- Will you know when to maximize depreciation options to reduce taxes?
- Can needed assets be placed in service before year end and payment be delayed?
- Should you maximize depreciation options to minimize taxes?

Tactics choices available:

- Select the most appropriate depreciation available to arrive at the tax status desired.

Tactic Dollar change

Bonus depreciation – new company assets $ _________________

New Section 179 depreciation – new assets _________________

New regular depreciation – new company assets _________________

_______________________________________ _________________

Total additional depreciation **(Line 4-C)** $ __________________

Worksheet 5 – Operating losses and Tax credits

Questions and Opportunities:

- Passing forward of losses and credits can be of significant benefit in future years to minimize taxes in those years.
- Are there any carryovers of losses or credits from last year?
- Do you know of any business activity that could be used to obtain a credit?
- Did your company have any capital losses carried over from last year?

Tactics choices available:

- Look for loss carryovers.
- Determine if you may have a credit or credits.
- Research credit requirements.

Tactic Dollar change

Carryover Operating losses from last year $ ___________________

Current operating losses to manage for this year ___________________

Company capital losses to manage for the year ___________________

Total operating and capital losses **(Line 5-1)** $ _________________

Non-refundable credits:

Estimated tax payments current year (not a credit but a reduction in taxes payable)

Tactics choices available using tax credits:

Tactic Dollar change

Non-refundable credits – (May be used against taxes – excess is not refundable)

Employer-provided child care credit $ __________________

Welfare to Work wage credit __________________

Enterprise zone credits __________________

Disabled persons facility upgrades credit __________________

Child care facilities establishment credit ________________

New market credit ________________

Paid family and medical leave credit ________________

____________________ ________________

____________________ ________________

Refundable credits:

Off-road fuel tax credit $ ________________

Research credit ________________

______________________ ________________

______________________ ________________

Total available credits **(Line 5-2)** $ ________________

Special taxable income deductions:

The new code section 199-A deduction** **(Line 5-3)** $ ________________

** Up to a 20% of taxable profits for pass-through entities' S corporations, partnerships, and sole proprietorship businesses.

Worksheet 6: Tax Plan Results

The Magic of Tax Planning

Original taxable Income (Worksheet 2 Line 2-M-1-I) (**Line 5-A)**
$ _______________

Corrected income change (Worksheet 4 line 4-A) **(Line 6-B)**
$ _______________

Corrected operating expenses (Worksheet 4 line 4-B-1) **(Line 6-C)**
$ _______________

Deferred comp.(Worksheet 4, line 4-B-2) **(Line 6-D)** $ _______________

Depreciation changes (Worksheet 4 line 4-C) **(Line 6-E)** $ _______________

Operating losses changes (Worksheet 5 line 5-E-1) **(Line 6-F)**
$ _______________

Total adjusted Income & Expenses changes (Add lines 6-B, 6-C, 6-D, 6-E, and 6-F) **(Line 6-G)**
$ _______________

Revised Taxable income (Line 6-A minus line 6-F)

(Line 6-H)*** $ _______________

Estimated tax (C corporations only) (Multiply Line 6-H by 21%(**Line 6-I)**
$ _______________

Less projected credits From worksheet 5 line 5-E-2 **(Line 6-J)**
$ _______________

Total tax based on tax plan (Line 6-H minus line 6-J **(Line 6-K)**

$ _______________

Original tax from worksheet 2 Line 2-M-1**(Line 6-L)** $ _______________

Tax planning savings (line 6-k minus line 6-L)\ $ _______________

***** This number for all businesses except C Corporation pass to the personal return. However, C corps may declare dividends to owners.**

Now we are going to bring the results from the business into a projection of your personal tax for the year

1. Total form W-2 wages $ ______________
2. All interest earnings $ ______________
3. Dividends received $ ______________
4. Earnings or loss from your Schedule C $ ______________
5. Capital gains or losses $ ______________
6. Other taxable gains or losses $ ______________
7. Taxable Pension incomes $ ______________
8. Rental, partnership or S corporation income(Line 6-H)*** $ ______________
9. Farm income from Schedule F $ ______________
10. Unemployment income $ ______________
11. Social security taxable income $ ______________
12. **Total gross income** $______________
13. Adjustments to gross income $ ______________
14. **Adjusted gross income** **$** ______________
15. Standard deduction ($24,000 Married, $16,000 Single) $ ______________
16. Code Section 199-A deduction $ ______________
17. **Taxable income** **$** ______________
18. Calculated tax $ ______________
19. Additional taxes (Self employment, early pension, etc) $ ______________
20. Credits and estimated tax payments $ ______________
21. **Estimated balance due or refund** **$** ______________

REFERENCE MATERIALS

PLANNING FORWARD

Continuing the tax planning process using projections, carryovers, and other tax tactics:

Planning carryovers:

NOL carryover	$ ______________
179 carryovers	______________
Capital loss carryovers	______________
Credit carryovers	______________
__________________	______________
__________________	______________

Total tax carryovers $ _____________

Projections and planning:

Establish business savings and cash management programs and accounts.
Develop a budget for next year to better control cash.
Look for opportunities to fund new business activities, expand the business market share, or expand the company product/service mix.
Is it time to grow?
Re-evaluate your marketing and customer relations procedures.
Make plans to improve the business going forward
Is this business going to make it?
What is the best way to increase marketing and incomes?
Plan that the future cash needs for the business can be met from reserves and not from borrowing.
If is it time to sell or close the business?

Other tax moves:

Pay out tax favored dividends to owners.
Pay tax deferred dividends.
Re-structure payments to owner(s) to tax favored forms.

A Summary of Possible Tactics that May Help Reduce Your Taxes

Managing Income as a Tactic

Know your accounting method, this will affect some tactic choices

You will need to know which type of accounting your tax returns use. The options are: accrual or cash.

Accrual methods add income when invoiced. When using the accrual method: income is accelerated by billing earlier; income is delayed by billing later.

Cash adds income when received. Income can sometimes be delayed by delaying the receipt of checks. This is achieved by delaying the actual collection of income. It may be accelerated by, aggressive collections and early deposits.

Choose when you want income if it can be moved

Income management objectives depend upon the tax situation. Usually in situations 1 and 2 you would be looking to postpone the receipt of income in the current year; in situations 3 and you may be looking to increase income into the current year. In each of these cases it is important to realize that changing the year income is recognized will change the income of some other year, and the process must not be artificially created.

Delay receipt of income by delaying the invoicing or delaying the mailing of invoices. Accelerate income by invoicing early or mailing earlier.

Ensure that you do not cause unwanted results in the following year. Poor planning can push income into the following year when that year will have higher income. Or it would make little sense to accelerate income into the current year if the following year will produce less income.

Expense Management Tactics

Managing expenses is basically the reverse of managing income.

Increasing current year expenses

Accelerate expenses if an accrual business by causing billings to be made during the current year. Accelerate expenses in a cash basis business by prepaying for products or services in the current year, even if those products or services will not be delivered or completed until the following year.

How not to accelerate expenses

Prepaying for certain products or services is not a workable tactic if the service or product has a useful life of more than one year. (Prepaying of an insurance policy for the next two years does not produce an expense in the current year for the entire payment). Only one year's premium is currently deductible.

Deferring expenses

Current year expenses that will create a loss may be deferrable. Your cash basis business can withhold payment until the following year.

Non-cash expenses

Depreciation is a non-cash expense. Increase this expense using the special elections below. Decrease this expense by not using accelerated methods.

Depreciation as a Tax Tactic

Depreciation (can make large differences in taxable income)

The depreciation is a most confusing tax rule. Lets look at the most common depreciation rules.

Depreciation is a tax accounting process. It that allows a business to expense (write off) the cost of asset acquisitions that have useful lives of more than one year. Depreciation is an artificial (paper) expense that does not require additional cash outlays, and yet reduces taxable income. It is a legal tax reduction device.

The IRS depreciation rules allow cost recovery of assets over their "normal" life. The Service has determined the useful life of every type of fixed asset. The life for depreciation is based on the IRS class life system. Property other than real property has lives of 3, 5, 7, 10, 15, or 20 years. Real property has a life of 27 ½ or 39 years.

Under the current MACRS depreciation system, an asset placed in service will be entitled to 200% of the first ½ year of its cost divided by its useful life. So, for an asset with a five year life the depreciation available in the first year of service will work out to 20% (the cost of the asset divided by 5 [years] divided by 2 [one half year] times 2 for 200% declining balance) The second year will work out to 40% or twice the first year, each year thereafter the amount will be less, 26% year three, 14% year four, and 10% year five.

Even as confusing as the above seems, there are even more confusing rule for autos.

Bonus depreciation

Current tax law allows for 100% bonus depreciation of all assets acquired and put into service during 2018. In prior years bonus depreciation was allowed only on new assets. The new bonus depreciation is available for all personal property acquired by a business whether new or used.

Early disposition of assets that used bonus depreciation dose not trigger any recapture of the bonus depreciation, unlike Section 179 write offs.

Code Section 179 Deductions

Besides the regular depreciation rules there is an additional fast write off election. Code Section 179 deductions, the expensing of all or some portion of the cost in the year it is placed into service.

Code Section 179 allows a business to expense (write off) up to $1,000,000 of the cost of “personal property” assets acquired and placed in service during the tax year. The allowable deduction is limited by the total amount spent in the year. The limitation begins to reduce the 179 deduction once total purchased reached $2,080,000.

Certain SUV’s have a maximum allowable 179 deduction of $25,000.

Carryovers

It should be kept in mind that the 179 deduction cannot be used to create an NOL carryover. However, any unused 179 deduction will be carried forward into the next tax year.

The 179 deduction presumes that the business will retain and use the asset for its normal depreciation life (i.e. 3, 5, or 7 years), should the business sell or otherwise dispose of a 179 asset in less that its normal life, part of the deduction will be recaptured as additional income to the business up to the amount received from its disposition.

Deferred Compensation as Part of Your Tax Planning

What the heck is deferred compensation? Deferred compensation is compensation paid to, or payable to, an employee for services rendered that does not constitute a part of that person's current year taxable income. This includes both salary deduction contributions and amounts contributed into a pension plan by the employer for the employee.

Types of deferred compensation

Deferred compensation falls into two basic types; payments into some form of pension or retirement plan, and accruals of compensation to be paid at some future date, or non-qualified deferred compensation plans (i.e., some stock option plans.). Accrued compensation may or may not be a current deductible expense depending upon the length of deferral, the type of employee, and the accounting method used by the business. Pension contributions are generally current expenses to the business.

Pension plans fall into three types; those funded fully by the employer, those that are funded fully by the employee by electing to reduce their take home wages by a predetermined amount that is contributed to the plan, and those that consist of both sides' contributions.

Who is eligible

In most cases, all "full time" employees will be eligible to participate in a business's pension program. Qualified pension programs fall under very strict federal guidelines regarding contributions, management and distributions.

Some types of business pension programs are:

- Traditional 401-k
- Simple or solo 401-k
- SEP – Simplified Employee Pension
- Simple –IRA
- Defined benefit plan
- Defined contribution plan

Each type of plan has its required set up deadlines;

Simple-IRA plans must be established by 9/30 of the year contributions will begin. (This plan will not be useful for late tax planning) All other pension plans except the SEP must be placed in service by the end of December, however they can be funded as late as 45 days after the calendar year end. (These are very useful as tax planning tools. The SEP plan can be established and funded up until the filing date for the tax return including extensions. (A good late planning tactic, presuming that the company does not have any other pension plan.

Timing of the funding of pension plans

The actual funding of pension contributions varies with the type of plan and whether there are withholdings from the employee. Generally when amounts have been withheld from an employee for pension purposes the business must remit those amounts to the plan trustee within 45 days of the withholding.

Company contributions to pension plans can generally be delayed for up to 45 days after the end of the business's fiscal year end. So pension expenses used on a business calendar year return can be paid up through February 14 of the year following.

Changing from year to year

Changes may be made to the type of pension plan for the business each year. All of the rules for discontinuing a plan and establishing a plan must be followed to avoid problems.

Operating Losses Can Affect Your Tax Planning

Creating a net operating loss

"Net Operating Losses" (NOL) can be created in several ways:

1. Expenses including allowable depreciation* exceed income for the year, such as a loss created by the automatic 100% bonus depreciation.
2. Loss from sale of non-capital assets causes net loss.
3. Carry over of prior year NOL creates a current year loss.

*A section 179 expense deduction can never produce an NOL, however the special bonus depreciation can create an NOL.

Carrying NOL's Back

In former years - an NOL for the current year could be carried back two years and used to reduce taxable income in those years. This could result in a refund of taxes paid in that or those years. Under current tax law NOL's can only be carried forward.

Carrying the NOL Forward

The current year NOL can be carried forward only.

Since a 179 deduction may not be used to create a loss for the business, excess 179 then carries forward and will be allowed in a succeeding year if the other deduction rules apply. This is a planning tool to be considered. Even if you do not need the 179 deduction in the current year, if you do not expect to acquire additional assets in the following year but are expecting profits the carryover deduction will prove valuable.

What about capital losses?

Capital losses would not affect business incomes for sole proprietorships and partnerships. In the corporate tax world capital losses receive special treatment. Capital losses may only be used to offset capital gains, no $3000 write-off as in the personal tax world. Special care needs to be taken if capital losses will be generated.

Tax Credits as Part of Your Tax Plan

Congress in efforts at economic stimulation has always allowed certain types of tax credits for business. Tax credits are more valuable than write-offs as they do not just reduce taxable income but actually reduce taxes, dollar for dollar.

Two types of Tax Credits

Tax credits fall into two basic categories: Non-refundable and refundable. Most tax credits for business are of the non-refundable variety.

Non-refundable credits

Non-refundable tax credits can be used to eliminate income taxes due from the business. Should the credit exceed the income tax due for the year in which the credit is generated, the excess credit may be lost or may carry forward for some period of time before being lost.

Refundable credits

A refundable credit can also be used to offset the income tax and some penalties, any excess credit will be refunded to the taxpayer.

As there are a wide variety of these tax credits and many situations in which there are even more credits based on the location of your business, you should work with your tax professional to determine your eligibility for these credits.

Some types of credits such the Welfare to Work credits require the input of a State agency to generate the credit.

Using Projections

Projections are estimates made from the best available information. They are used to “guess” at the most likely situation in the near future. Each projected situation could dictate a different set of tactics that may be used to arrive at the best possible tax cost results.

As tax tactics are usually time sensitive the tactic will require the proper structure of activities, processes and tracking to be in place before the tactic is needed or used. Therefore the projections are of high importance and are required to develop a proper strategy.

Here are some of the projections you should develop:

- Income probable – This year and next
- Expense projections – This year and next
- Possible asset acquisitions – When is the best time to acquire?
- Cash availability – To pay for tax reducing actions
- Possibilities to delay payments – Will funds be available early next year?
- Other – Add or delete products or services