



Year-end tax planning for businesses

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Law Talk

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In a short time, 2009 will be history. For many people, they will be happy for a fresh start in the New Year, hopefully full of new opportunities to grow their businesses and in turn grow their families. It is a time of celebration, of sharing thanks and love, and connecting with families and those that we cherish.

It is also the time to do some year-end tax planning. There are various easements in tax law due to expire at the end of 2009, and some where the new rules take effect after the end of 2009. Some of these rules are for personal transactions and some for business transactions.

For instance, if your company has a flexible employee benefit plan that includes payments for health insurance and payment of medical expenses tied to a 12-month cycle ending Dec. 31, make sure to use the plan before year end.

To that end, if you need a surgical procedure and have used up your deductible and the portion you need to payout in one year, consider having your surgery before the end of the year. If you have not had your normal physical or your annual dental appointment, consider making those appointments also. This is especially true if your plan does not allow the dollars to roll over into 2010.

There are no required year-end distributions this year from IRAs for those individuals who are 70.5-years-old and up. It is unlikely this relief will be extended into 2010. This allows someone who is required to take out a portion of his or her account every year to leave the money in and let it grow tax free for another year.

If you are expecting to owe a substantial amount of tax next April for your individual returns, consider increasing the withholding amount in your remaining paychecks, or plan payouts between now and the end of the year. Since withholding is treated as if it were paid in ratably throughout the year, you may be able to reduce or eliminate any underpayment penalty if the amount of your withholding exceeds the safe harbor test.

For business owners, shifting income between years can create tax savings. A professional can postpone billings until 2010 to collect less in 2009, if this is a big tax year, or alternatively, speed up the year-end billings to collect more in 2009, if they expect to be in a higher tax bracket next year. There are also some options toward the end of the year with respect to the payment of expenses, provided that such choices do not distort earnings.

A business can delay paying 2009 year-end bonuses so they are not taxed until 2010. This will not work for a majority owner if the bonus amount is fixed during 2009 and the business has enough cash on hand to pay the bonus. The IRS treats the majority owner as being in constructive receipt of the money.

If you place business assets in use by Dec. 31, you can receive large deductions. The current tax law allows for bonus depreciation to be claimed for 2009, allowing 50 percent of an asset's costs to be

deducted up front in 2009. The other half is recovered through regular depreciation.

The assets covered by this provision have useful lives of 20 years or less, including machinery, equipment, land improvements, single purpose farm buildings and improvements made to the inside of commercial realty. This tax deduction is not available for other buildings.

Businesses are also allowed to expense assets placed in service before year end. Firms can expense up to \$250,000 of the cost of the assets in lieu of depreciating them. This is subject to a certain ceiling.

With all of the changes in the laws this year, there are many more planning points than space in this column. Be sure to talk with your tax attorney or other professional to claim all of the benefits you can this year.

Happy Holidays!

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