



Tax Savings Opportunities

Business

What's New for Business in 2006

Always take a sensible approach when it comes to tax planning. Structuring transactions strictly on the tax consequences is seldom a good idea. Your investments, family financial planning, and business activities should have economic merit without the tax considerations. However, taxes are a fact of life. A little planning can often save a lot of money.

Business-friendly tax breaks extended in 2006:

- Sec 179 deduction along with indexing
- Energy efficient commercial buildings deduction

Expired tax breaks

- Work Opportunity Credit
- Welfare-to-Work Credit
- Research Tax Credits
- 15-yr recovery of qualified leasehold improvements

Roth 401(k) Plans

Beginning in 2006, firms can amend their 401(k) plans to add a special ROTH IRA account that can be funded by payroll deduction. The ROTH 401(k) contribution cap will be higher than for a regular Roth. The standard 401(k) limit applies, a \$15,000 maximum for 2006, plus an additional \$5,000 for anyone 50 or older. Among other advantages of the ROTH 401(k), there are no income limits on contributions, unlike the \$160,000 income limit on regular ROTH IRAs.

Mileage Rate Increase

The vehicle rate for 2006 is \$.445 per mile. Remember to maintain required records for vehicle odometer mileage on business vehicle with personal use. (The mileage rate is \$.485 per mile for 2007.)

Business Expenses & Bonus Depreciation

Anticipate business equipment and furnishing needs. The section 179 deduction allows business owners to deduct up to \$108,000 of the cost of qualifying depreciable property "placed in service" in 2006, with phase-outs beginning at \$430,000. Property eligible for the immediate tax write-off can be new or used, and includes "off-the-shelf" computer software, subject to certain limitations, however.

Beware! If more than 40% of 2006 equipment purchases fall in the last quarter, regular depreciation (after the 179 deduction) on all 2006 assets is figured on a quarterly basis.

Amortization of Intangibles

A taxpayer is allowed to deduct up to \$5,000 of start-up and \$5,000 of organizational expenditures in the taxable year in which the trade of business begins, which is phased-out by cumulative amounts exceeding \$50,000.

Tax Saving Ideas

Defer Income and Accelerate Deductions

The most common year-end tax planning strategies are those that defer income from current year to later years and those that move deductions from later years into current years. The underlying reason is that it's better to pay taxes later rather than sooner due to the time value of money, especially if you expect to be in a lower tax bracket in 2007. Deferring income until 2007 also gives you free use of the money for a year before paying tax to the IRS. Although the tax rates may not change in 2007, each bracket is slightly wider.

You can postpone taxable income by putting off client billings until late in the year so you don't receive payment until 2007. (Remember, receipt of a customer check by December 31 represents "constructive receipt" and is includable in current year income regardless of the bank deposit date).

Note: If you expect taxable income to result in a higher tax rate next year, consider accelerating the receipt of income into 2006, while postponing incurrence/payment of tax-deductible items until 2007.

Shelter Income with a Retirement Plan

Retirement plans are one of the best tax shelters available. There are many kinds of retirement plans to choose from. The kind of plan you should have will depend on the legal form of your business, the number of employees you have, and the amount of retirement income the plan must provide.

Employ Your Child

Employing your children shifts income from you to them, which typically subjects the income to the child's lower tax bracket and may actually avoid some tax entirely (due to the child's standard deduction). Wages paid to your children under 18 are not subject to payroll taxes if you're an unincorporated business, a proprietorship or partnership. Employing your children has the added benefit of providing them with earned income, which enables them to contribute to a ROTH IRA or save for future education.

Caution: When employing your child, keep in mind that the wages paid must be reasonable given the child's age and work skills. Also, if the child is in college or entering soon, excessive earned income may have a detrimental impact on the student's eligibility for financial aid.

Readers should not rely on the information herein without obtaining professional advice. For more information and more complete consideration of specific matters, readers are invited to contact us. ~ Pursuant to Circular 230 promulgated by the Internal Revenue Service, if this newsletter contains advice concerning any Federal tax issue or submission, please be advised that it is not intended or written to be used, and that it cannot be used, for the purpose of avoiding Federal tax penalties unless otherwise expressly indicated.



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