Client Update: Year-end Tax Planning for Businesses
December 1, 2008

As the end of the year quickly approaches, here are a few last minute tax-planning strategies to consider.

▪ **Timing** – Consider the timing of income and expenses. Even with tax rates expected to increase in 2009, it will still generally be advantageous to defer taxable income and accelerate deductible business expenses. Consider writing checks before year end to pay for deductible expenses and delaying the issuance of invoices.

▪ **Section 179 Expensing** – For 2008, a small business may immediately deduct up to $250,000 of business expenses if the company has made less than $800,000 of business expenditures during the year. Normally, business assets must be depreciated asset over the useful life of the asset. Small businesses could consider making year end upgrades to equipment, software and hardware and stock up on office supplies to take advantage of this deduction.

▪ **Dividends and Distributions** – Corporations with net losses in 2008 might have opportunities to make tax-free distributions to shareholders. Currently, qualified dividends are taxed at the same maximum rates as net capital gains. Non-dividend distributions which qualify as a return of capital reduce the shareholder's basis in his or her stock and are not taxed until the shareholder's basis in the stock is fully recovered.

▪ **Recognition of Worthless Securities** - You may be entitled to a deduction for securities that have become completely worthless during the year. The taxpayer must show that the security had some value at the end of the prior year and that an event occurred during the current taxable year that triggered the complete loss of value. Because of the difficulty in demonstrating the complete loss of value in your securities, you may be able to sell your interest in the company to a third party for a nominal value to demonstrate your capital loss.

▪ **Bad Debt Losses** - Now may be the time for businesses using the accrual method of accounting to recognize bad debt losses. You may have a bad debt if you have been unable to collect debts such as loans to a client, supplier, employee, or distributor. Unlike the worthless securities deduction, bad debts may be deductible when the debt becomes partially uncollectable.

▪ **Contribution to A Retirement Plan** - Individuals should consider making the maximum contribution to their existing retirement plan, such as a 401(k) or Individual Retirement Account. If you are a business owner and have not set up a retirement plan already, consider setting up a retirement plan for 2009.