

TOP TEN YEAR-END TAX PLANNING IDEAS FOR CONTRACTORS

As the leaves change and fall, the nights get longer and with Thanksgiving looming, it is time to begin thinking about year-end financial and tax planning. While contractors love daylight we accountants know that when the days become shorter that it is time to prepare for another tax season.

The following list in no particular order should be helpful to you and your company in preparing for another year-end.

- New Internal Revenue Code Section 199, the manufacturing deduction - All contractors need to determine if they are eligible for this deduction which starts at approximately 3% of taxable income and increases to potentially 9% of taxable income for 2009 and beyond.
- Maximizing §179 equipment expensing - Contractors who are profitable are able to expense the first \$105,000 of their equipment purchases. This deduction begins to phase out at \$420,000 of purchases.
- Year end bonuses - Many companies are able to manage their year end taxable income by rewarding high performing staff with bonuses. Of course, these bonuses can also be paid to the owners and any employed family members as well.
- Maximizing qualified plans - For profitable companies one of the best tax saving ideas is deferring more money into qualified retirement plans. These plans allow for an upfront tax deduction and tax free growth on the funds until they are distributed to the participants.
- Family members on the payroll - If you are a family owned business a good way to transfer income to lower tax brackets is to pay family members. Obviously, these members of the family must provide some sort of service to the entity in exchange for their compensation received. This tool can be especially powerful for contractors with children going to college or soon to be in college.

- S Corporation W-2 compensation - Beware, sooner or later the IRS will begin to enforce this and you do not want to be the one caught. Profitable S Corporations must pay reasonable compensation to their owners for services provided to the company. But paying W-2 compensation also creates an opportunity. Withholding for federal taxes is treated by the government as being paid in evenly throughout the year. Paying a large bonus to an owner creates the opportunity to withhold a significant portion of their federal tax and avoid the estimated tax payments while the company has enjoyed the use of the money all year long.
- Employer provided vehicles - This top ten item is a reminder to all contractors who provided vehicles to employees, even if it is just for commuting, that they must calculate the earned income impact to the employee and include this amount in their pay by the end of the year.
- Method of accounting - For smaller contractors on the cash basis method of accounting they need to make sure they accelerate payments of their liabilities and remind their customers that it is no big deal if they pay on January 2nd versus December 30th.
- Gifting/transferring stock to the next generation - Many contractors are approaching retirement age. The end of the year is an excellent time to begin or continue a stock transfer program to the successor employees or family members who will continue on the contractor's excellent business.
- Making significant charitable contributions by 12-31-2005 - For cash contributions made between August 29, 2005 and December 31, 2005 the 50% limit of Adjusted Gross Income has been waived allowing for individuals to potentially offset all of their income this year with charitable contributions.

The above list is simply to raise ideas that could be helpful in managing 2005's taxable income. Please consult your personal tax advisor before making major decisions based upon the above items.

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