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PODCAST EPISODE #10: TAX TIPS FOR BUSINESSES INTERVIEW WITH JEFF GROFF, CPA, TAX PARTNER TRANSCRIPT

Kae Wagner – Jeff Groff is on the line with us today and we're going to be talking about Tax Tips for Businesses coming in to the end of the year. Jeff has been with Ross Buehler Falk as a CPA for seven years and is also a Tax Partner there at the firm. Today we want to talk about Tax Tips for Businesses, and Jeff, as we're getting closer to the end of the year, what are the tax tips that you have for businesses?

Jeff Groff – Well for starters, we definitely encourage our clients and our business owners to monitor their income, especially this time of year and project what they think the final couple of months are going to be to get an idea for their income at the end of the year, because we can then do some planning. If they're having a very profitable year, there are a few business decisions they can make to try to cut down their tax liability, such as a fixed asset purchase, buying a new piece of machinery equipment. There are some very generous depreciation deductions they can take. One is called Section 179 and under certain circumstances you can deduct up to $500,000 on the cost of new equipment. Now there are limitations, and this $500,000 of deductions for machinery equipment cannot create a loss for the business.

Another area is called bonus depreciation. Currently you're allowed to deduct up to 50 percent of any new equipment purchase. Now it must be new equipment. It cannot be used and it also needs to be tangible personal property. The 50 percent bonus depreciation deduction can create a loss for businesses: that is allowed under the current legislation. Another area is to maximize retirement plan contributions if they have a profit-sharing plan or discretionary plan where they can contribute more money into a retirement account. If they make those contributions, they can get the tax deduction for that this year.

Kae Wagner – It's really about planning and knowing the health of the business, you know, how the cash is coming in and all of that.

Jeff Groff – Yes it is about planning. The majority of the businesses in our area operate as partnerships or as S-corporations. So not only do we have to track the income at the business level, we also need to know what the impact will be as it flows down through the individual shareholders or partners. So there are situations where an individual shareholder or partner has significant other sources of income. If we can take a legal depreciation deduction and create a loss, they may get the benefit of that on their individual return by offsetting other forms of income. Now that doesn't always work because we don't necessarily want to drive a loss through depreciation if we're not going to be getting a tax benefit for that. And what I mean by that is if their income fluctuates from year to year and they know they're going to have a good year coming up, they may not want to accelerate the deductions this year. They may want to wait and take some of those depreciation deductions to offset future years.

Kae Wagner – So you really need to look at the long term and the short term.

Jeff Groff – And that's what's so important about planning and consulting with your tax and accounting advisers.

Kae Wagner – Let's talk about tax credits. I know there are some opportunities for business and tax credits.

Jeff Groff – The tax credit that we're seeing the most interest in right now is the research and development tax credit. A few years ago, they expanded the research and development tax credit to include multiple types of businesses. The areas that research and development can be found are agribusinesses, manufacturing, construction, engineering, to name a few. The criteria for research and development is you need to be doing something new to your entity, to your business, and there are some very favorable credits out there for that. And currently under the most recent law change, you can use the research and development tax credits to offset your alternative minimum tax liability.

Kae Wagner – So that's an area where you can help clients to really understand what activities they're doing that would be qualifying them for this R&D tax credit.

Jeff Groff – That's correct. And what we would do is analyze their payroll accounts to see how much time their employees are spending in research and development. This could be creating new products, extending shelf life of current products, designing new types of packaging. There's a wide range of areas that this could impact and payroll is a starting point to see how much time is being spent in those areas, along with some other subcontracting costs that may be incurred.

Kae Wagner – Jeff, since we don't know yet if there are going to be any major tax law changes coming down the pike, what's your advice to businesses that are getting ready for the year end?

Jeff Groff – First and foremost, my advice to all businesses is to make decisions based upon your business needs. Don't necessarily make a decision based on a tax deduction or a tax credit. Make sure it makes sense for your business and the needs of your business. After that, the next item is to keep good records. Keep as much documentation as possible to support the items on your financial statements and your tax returns.

Kae Wagner – In the meantime, as we're prepping for tax season for the year end are there any standard items that people should make sure that they don't miss?

Jeff Groff – There are quite a few that do get overlooked each year and individually they may not be big dollar amounts, but taken as a whole, they do add up. One item would be vehicle mileage. A lot of times you see business owners or employees driving to a client, driving to a business location, going to the bank and they're not getting reimbursed for that mileage. They're not keeping track of their mileage. And sometimes it may add up, especially depending on where their business is taking them.

Another area is when businesses have employee functions that include the entire team. They're allowed to take a 100 percent deduction for those meals and entertainment expenses. That may be a company picnic in the summertime where everyone's included. Normally meals and entertainment are subject to a 50 percent exclusion. But if the meals and entertainment are for everyone at the business, then they may be eligible for the 100 percent deduction.

Another area is for self-employed individuals or partners in a partnership. Sometimes their health insurance premiums get overlooked and not deducted as self-employed health insurance on their 1040. Another area would be cell phone and internet usage. If you're using your cell phone for business and you can substantiate that, along with potentially your internet at home, if you're allowing work from home, there may be deductions available for cell phones and internet usage that are being overlooked. Another item that may add up also is pettycash or miscellaneous expenses. A lot of times I see people going to the store to pick up supplies, whatever that may be, paying for it out of their own pocket and possibly forgetting to turn that in as a business expense.

Kae Wagner – So everything adds up doesn't it?

Jeff Groff – Yes it does. Everything adds up, especially if you keep good documents and records.

Kae Wagner – Well great! Jeff thank you for being on the line with us today and for these tax tips. It's important for every business to do their planning and to actually start that now if they haven't already. I know that you and the Team and the Partners at Ross Buehler Falk are looking forward to hearing from all of your clients and from any others who might have some questions about what we have covered today. So I want to thank you for all of that and hopefully we will talk to you soon.

Jeff Groff – Thanks Kae. I also hope to hear from some of our business owners and clients regarding year-end tax planning.

Kae Wagner – Okay, thank you. That's it for today folks. Visit www.rbfco.com for more information on Accounting that goes Beyond the Numbers. This is your host, Kae Wagner, for Ross Buehler Falk. Our next episode is coming soon. Don't miss it.