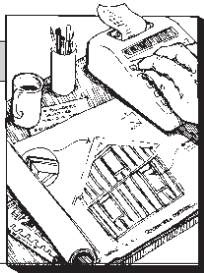


Tax Planning Checklist

by Irving L. Blackman



Year-end tax planning is always a good idea. It might be compared to fertilizer: It makes your tax savings grow. It works best when you have either a new law or a change in tax rates. This year, you have both.

Three things are essential to successful business year-end tax planning session. You should:

- Arrange your meeting away from the office where the tax planning team—usually the company's top decision maker, controller, and outside tax adviser—will have enough time to pinpoint financial and tax objectives and thoroughly analyze how to meet them.
- Gather the essential financial information—last year's financial statement and tax return; projected year-end financial statements for the current year; and a projected profit-and-loss picture for the next year. Bring a schedule of all unused carry-forwards and their expiration dates.
- Bring a comprehensive checklist of possible tax moves to help achieve your objectives.



Basic Strategy

First, let's talk about your objectives. The primary objective is to jockey both income and expense into the year—either 1987 or 1988—that will produce the lowest overall tax for both years.

However, in some cases your strategy should be to spread the tax impact into years after 1988. Or was 1987 a loss year? If so, your best bet may be to increase the loss as much as possible. Why? Your loss can be carried back to 1984 (when tax rates were higher), allowing you to recover a cash refund for past taxes paid; plus, the IRS will pay you interest on the refund.

The new law—Tax Reform Act of 1986 (TRA)—is the key consideration in your year-end plan. Not only does TRA provide a host of new tax rules, it pushed rates down in 1987, and rates will sink even lower in 1988. Read each item on the checklist with TRA in mind. Use the checklist more to jog your memory than as a technical analysis of the law.

In general, accelerate deductions into 1987, when the deductions will be most valuable. Defer year-end income into 1988, when it will be taxed at lower rates.

Also, consider S Corporation status. It will become increasingly attractive with the tax changes that are occurring. The income of an S corporation is taxed directly to its shareholders at their personal rates, which are lower under TRA than corporate rates. Thus, an S election may reduce the overall tax burden on a closely held corporation and its owner.

Suggested Checklist

The following list contains most of the balance-sheet items that closely-held businesses should take into account when considering a year-end tax plan. There are other issues not included here (see information at the end of article about getting more details).

Cash

- Invest in tax-free municipals.
- Invest in dividend-paying stock of domestic corporations (80 percent tax-free).

Cautions: You cannot borrow to carry either of the above investments.

- Does an excess amount of cash and cash-like investments indicate an accumulated earnings problem?

Accounts Receivable

- Write off all bad accounts.
- Make sure below-market loans to shareholders will not exceed \$10,000, resulting in non-deductible imputed dividends.

Inventory

- Are overhead items being properly included or excluded according to the new uniform capitalization rules?
- Sell obsolete, old, or damaged merchandise to capture inventory losses as a current deduction.
- If not on LIFO, write down damaged, shopworn, odd-lot, and obsolete goods to salable values, less direct costs of disposition. The value assigned must be established by actual offer for sale within 30 days of the valuation date. If the goods cannot be sold, junk them.
- Consider switching to the LIFO method. If using LIFO, determine inventory levels needed at year-end to maximize benefits.

Property, Plant, and Equipment Accounts

- Instead of selling equipment, avoid gain by trading it in.
- Initiate needed repairs and complete this year.
- If equipment is obsolete, sell it or abandon it so you can deduct the remaining book value.
- Place property in service before year-end to maximize depreciation; but don't blow use of mid-year convention by putting 40 percent of property in service during the last

three months of your fiscal year.

- Expense up to \$10,000 of new personal property instead of taking depreciation over a period of years.
- Deduct the cost of tires and tubes immediately, whether the vehicles were purchased new or used.

Look at every other asset and liability on the balance sheet to determine if anything can be done taxwise.

Year-end tax planning can be a win-win situation. This is particularly true in 1987. The checklist provided above can help get you started. But it doesn't attempt to cover every situation,

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exception or trap. There are many other areas of opportunity not included, such as actions you can take regarding investments, liabilities, earnings and profits, cash-shortages, and travel and entertainment expenses. If you want to go into further depth, the author has written *Year-Round Personal Tax Planning*. . . 191 Ways to Win After Tax Reform (\$24) and *Year-Round Business Tax Planning*. . . 153 Ways to Win After Tax Reform (\$24). Both reports are available together for \$39. Write to Blackman, Kallick, Bartelstein, 300 South Riverside Plaza, Chicago, IL 60606.

And finally, to make the most of these opportunities, it's best to check it out with an experienced professional. ■

Irving L. Blackman, CPA, J.D., is with Blackman, Kallick, Bartelstein, in Chicago, Ill. He specializes in closely-held businesses.