

Year-End Tax Tips



A construction company whose accounting system follows the calendar year always has a white Christmas. A holiday snowfall? Yes, for those in the North Country. But no matter where you live and

by Steve Maltzman

work, December and January bring a blizzard of paperwork as you try to tie up all the loose ends and prepare the seemingly endless list of state and federal reports.

Whether you do your own bookkeeping or shovel everything into a box and give it to your accountant, the following tips will help you prepare to close out your company's books.

Payroll Taxes

Even if your company has a fiscal year-end other than December 31, there are a number of year-end payroll reporting requirements that must be met.

Form 940. In addition to your normal quarterly payroll tax returns, all construction companies are required to file Form 940 — a federal unemployment tax return that is due February

1, 1999. Many states also require the filing of a year-end unemployment tax return. The due date is January 31; if that date falls on a weekend, the due date is the first Monday following January 31.

Form W-2. You must provide each full- or part-time employee with a Form W-2, which summarizes the year's wages, state and federal taxes withheld, and other deductions. Your employees need these forms to complete their personal income tax returns, so don't delay in preparing them. By law, copies for employees must be postmarked no later than February 1 (the weekend exception is the same as for Form 940); the postmark date for copies sent to the Social Security Administration (and the state, if applicable) is February 28.

Form 941. When filing your fourth quarter Form 941, make sure that all of the gross wages and taxes withheld for all four quarters agree with the totals shown on your W-2s. The IRS will pick up any discrepancies, but it could take several months before you're notified. In the meantime, you could be assessed penalties and interest, even if you filed on time.

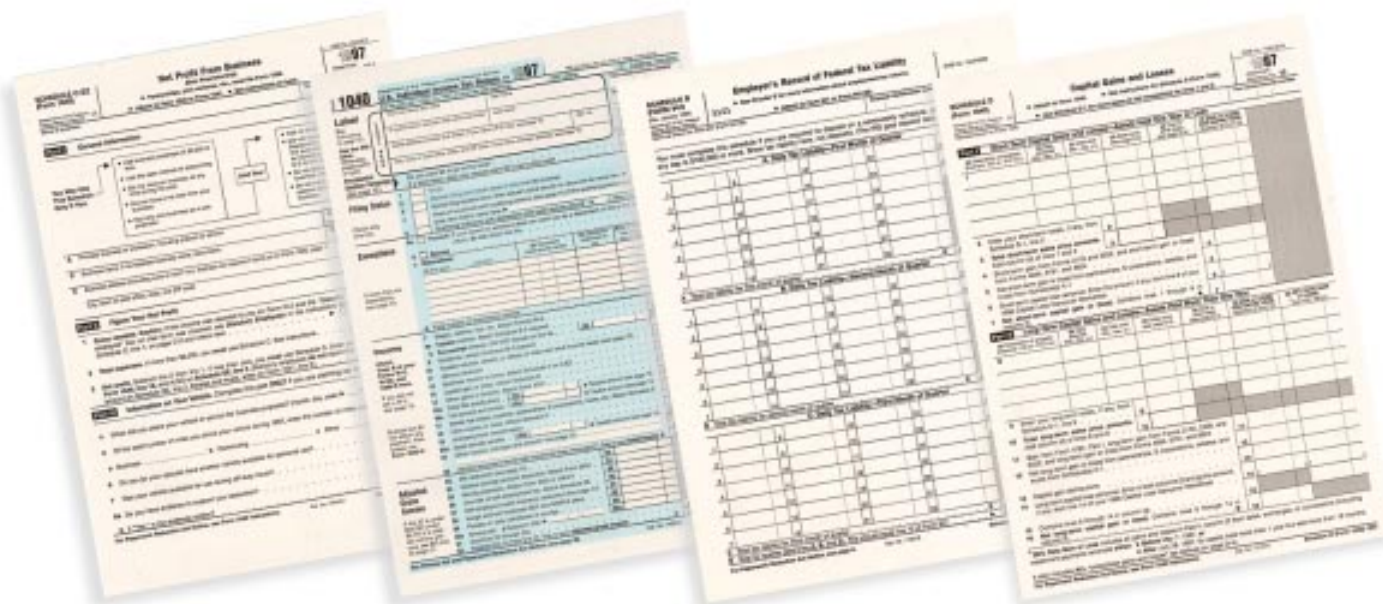
Form 1099. You also have to send a Form 1099 to all individuals and companies (except corporations) that performed services and were paid more than \$600 in 1998. Copies of the 1099s must be attached to a summary sheet (Form 1096) and filed with the IRS. In each case, make sure you have the proper taxpayer identification number — you may be penalized if it's missing or incorrect. Most registered subcontractors will have a federal employer identification number or EIN (a 9-digit number in the format xx-xxxxxxx). For individuals — and for companies that don't have an EIN — you can use a social security number. In this

workers comp policies do not correspond to the calendar year. If you're missing a couple of certificates, now is a good time to get them. While not strictly part of your tax preparations, getting your certificates together now will save you time next year when your annual insurance audit rolls around.

Magnetic media. If you want to file 1099s or W-2s on magnetic media, you must fill out an Application for Filing Returns Magnetically or Electronically prior to year's end. If you have more than 250 W-2s or 1099s, you are required to file these returns magnetically or electronically.

all 1998 operating expenses are paid before year's end, you can pick up more costs — and reduce your taxes — in the current year. Prepaid job costs can also be deducted, provided you're not using percent-complete or completed contract accounting. Items such as insurance, rent, professional fees, and state income taxes are among expenses that can easily be prepaid.

Purchase fixed assets. If you have not yet purchased \$18,000 worth of fixed assets, consider making such purchases in 1998 instead of waiting until 1999. Section 179 of the IRS code allows you to expense up to \$18,000 of



case, however, the 1099 needs to be made out in the individual's name, even if he or she has a "doing business as" name.

Ideally, you will have obtained a taxpayer identification number at the time the services were rendered. But if you're missing a few numbers, don't be tempted to skip the 1099. If you fail to file a 1099 and the individual or company in question is investigated by the IRS, you could end up being liable for withholding taxes, not to mention penalties and interest.

Insurance certificates. You should have obtained an insurance certificate from each sub who did work for you during the year, preferably at the time the work was done and before it was paid for. Be sure to check the dates of coverage on the certificate, since many

Tax Planning

Every company that makes money has to pay federal and state income taxes, but here are some tips for deferring tax payments. Before taking any of these steps, however, discuss them with your tax advisor, since each company's tax situation is different.

Postpone a closing until 1999. Provided you use the "completed contract" method of accounting, a postponed closing means that you would not pick up either the revenue or the costs related to that house or remodeling project until the next year. (This does not apply to percent-complete work.)

Accelerate cash disbursements. If you operate on a cash basis, you can speed up payments for operating expenses. By prepaying 1999 expenses or making sure

asset purchases during the year. A fixed asset is usually valued at over \$500 and has a useful life of more than 1 year. Examples include large tools, trucks, construction equipment, computers, furniture, and fixtures.

Improve Your Financial Statements

For construction companies who are required to present financial statements to their bank or to outside investors, a number of steps can be taken prior to year's end to improve the look of the statements. When making some year-end transactions, you need to look at the effect the transaction will have on both your taxes and your financial statement. Some transactions that improve your financial statements also increase your current year tax liability.

Non-current and current assets. Consider selling off non-current assets and turning them into current assets. Selling a vehicle or equipment for cash are good examples. This move would improve your working capital ratio, which your bank looks at as a measure of liquidity.

Refinance debt. Another way to improve liquidity is to refinance your debt, moving it from current (due by the end of 1999) to long term. If you are an owner of a C-corporation, you may want to issue a long-term note to the company and use the proceeds to pay off current debt.

Separate meals and entertainment from travel and lodging costs. Meals and entertainment are 50% deductible; travel and lodging are fully deductible.

Separate out any tax penalties paid during the year. These are not deductible.

Separate contributions from advertising. Some contributions, such as advertising in a church bulletin, may have limited deductibility.

Review small tools and office expenses for items that should be capitalized. As a rule of thumb, I like to use a \$500 limit: Items under \$500 are expensed; items over \$500 are set up on the balance sheet and depreciated.

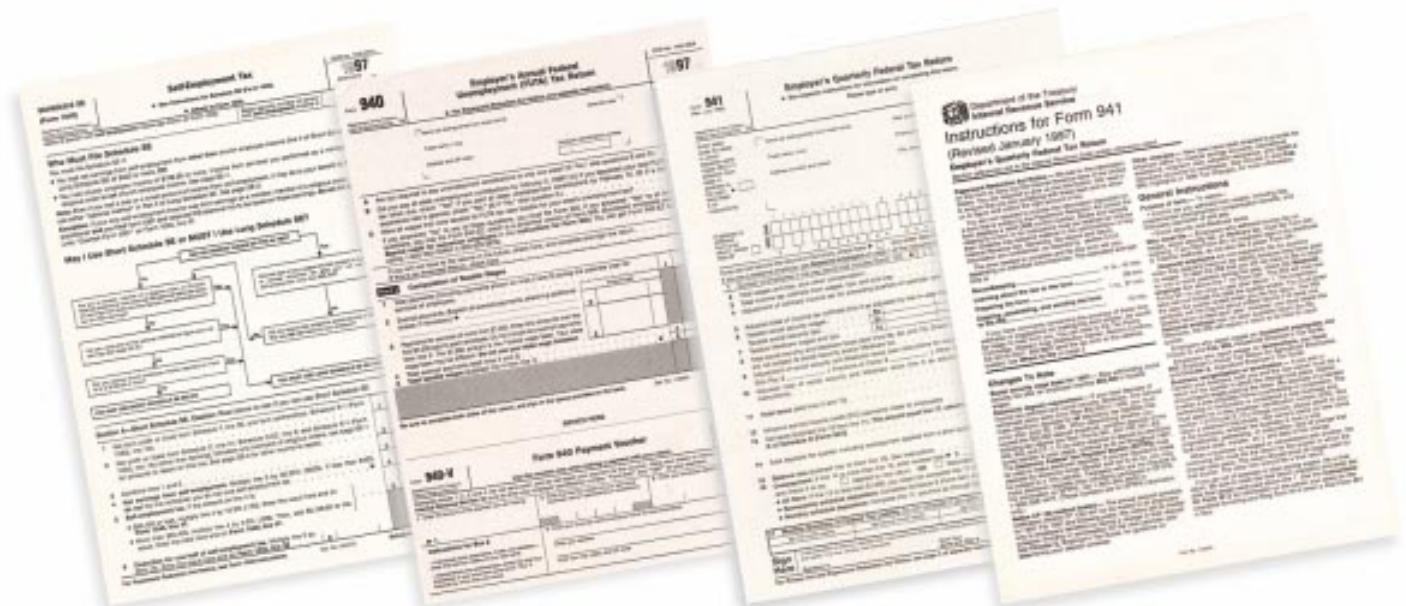
estimated cost, costs incurred from the start of the job through year-end, and amounts billed to date.

If you are a sole proprietorship, make sure that personal activities are separated from business activities.

If you are a corporation, segregate the salaries of the company's officers from all other salaries, and provide the social security number as well as percent of time spent working in the business for each officer.

Budget for Next Year

Year-end is a great time to begin working on your business plan and



Minimize prepaid expenses. Many times bankers "throw out" prepaid expenses in their calculation of working capital.

Be Prepared

Before going to your accountant to discuss your tax return, make sure you have all of the information you'll need. Here's a checklist of items to consider:

Review all general ledger activity for the year. Make sure all expenses were posted to the proper account (ideally, this review should be done monthly). The process isn't difficult, but it's time consuming, so it's cheaper to do it yourself.

Review job costs. All job costs should be included in Cost of Sales, not in Operating Expenses. Again, this review should be done monthly.

Prepare a detailed list of asset purchases. Include a description, date purchased, and amount.

Know which accounting method will be used to prepare your tax return. If both your books and your tax return are on an *accrual basis*, prepare a list of accounts payable (AP) as of the end of the year, including the general ledger account that the amount was posted to (material, office expense, and so on). Also prepare a list of open accounts receivable (AR) by customer. Make sure that these AR and AP lists agree with the balances in their accounts within the general ledger.

If your tax return is prepared on a *completed contract* or *percent of completion basis*, you need to prepare a list of jobs in progress as of the end of your fiscal year. Include the contract amount, total esti-

operating budget for the new year. As the old adage goes, "If you fail to plan, you are planning to fail." While you've got all of your budget data in front of you, it makes sense to estimate operating expenses for the coming year. This is particularly true if you'll be adding personnel to overhead (office help, for example), or if you're planning any major equipment purchases (a truck or a new computer, for example). The time you put in now developing a game plan will help increase profitability in the year ahead.



Steve Maltzman is a Certified Public Accountant who has worked as a part-time controller and chief financial officer for building and remodeling companies throughout the U.S.