7.5 Ways to Guarantee NO Tax Surprises

A. **Schedule an appointment with your accountant/CPA.** Your accountant should proactively manage your taxes. If they don't, find someone else. This may sound simple, but if your tax professional hasn't called to schedule a tax review by the end of October, something is wrong!

B. **Make sure your books/records are accurate and up to date.** Again, this may sound simple, but your accountant or CPA can't project your taxes without accurate and complete numbers from you. Some of the most common errors are with fixed asset purchases or disposals, new loans, loan payments, inventory, and owner's distributions. Bookkeeping is a dying profession (unfortunately), and 90% of the financial statements accountants/CPAs see have material errors. If you don't have competent people and processes to prepare timely, accurate, and complete financial statements, then talk to your accountant about getting help.

C. **Pre-Organize your Taxes:** Unless this is your first year to file a tax return, then you know the drill. You won't have the year end reporting forms (W-2's) and statements, but you have interim numbers from check stubs, monthly/quarterly statements, etc. All of the other information (e.g. donations) can be calculated with an estimate for the remainder of the year. Prepare for the meeting just as if you were meeting in February.

D. **Estimate the rest of the year:** Sometimes this can be tricky, but it is best to look at prior year's performance, as well as the trailing 12 and 24 months. Consider sales orders or other pending items, and assess a probability of them happening. Sometimes it is better to prepare more than one estimate based upon a couple of different scenarios. Remember, you're trying to eliminate tax surprises, so be conservative. Assume that all of the sales come in, and plan for the worst.

E. **Consider year end options:** Although taxes shouldn't be the tail that wags the dog, if you plan on purchasing large ticket items (e.g. equipment) in the first six months of the coming year, consider accelerating the purchase into the current year for the additional write off. Be careful that you don't become dependent on the accelerated depreciation tactic though. Eventually you will no longer need additional equipment, and your tax bill will spike. When possible, consider financing the purchases. You will receive the full benefit of the equipment in the year you purchase it, whether you use your cash, or the bank's.

F. **Funding of Retirement Plans:** Many small business owners are not aware of the significant tax deductions available with retirement plans, and those that do have plans, often don't have them optimized to maximize tax deductions. Establishing some retirement plans has to happen by October 1, but many can be established up to year end. Many of the retirement deductions can be taken for the current tax year, while deferring payment up to September 15th of the following year. Be aware though, the plans have to be established or changed PRIOR to the end of the year to receive the deductions.

G. **Usual Suspects:** This may be nothing new to the experienced business owner, but always consider the multi-year tax implications of decisions. Usually deferring income and accelerating expenses for the current tax year is a solid strategy, but consider your tax situation carefully. In years where tax rates are set to increase, it

may make sense to show the income in the current year at the lower rate. Additionally, consider what your income will be in the following year and group your income and expenses to stay below marginal increases in tax rates. For example, consider whether you should write off the obsolete inventory or bad debts this year or next when you expect income to be higher.

H. (We added this one as a bonus, but it doesn't apply to everyone) **What States Are you In?** With shrinking budgets, many states are aggressively pursuing businesses that cross borders to work. State nexus (i.e. where you have to file taxes) is a complex and shifting matter, and you must consult with your tax professional to determine which jurisdictions you must file. You might be able to allocate income and/or expenses to lower tax states to lower income tax liability (or even better would be states with no income tax). Although there are limits to this strategy, proper planning can help save tax dollars.