

# Year-end tax planning

Tips on how to think big-picture with your tax planning strategy **Interviewed by Matt McClellan**

**M**any businesses are getting ready to close the books on one of the most turbulent years in recent memory. Although tax planning should have already taken place for this year, there are still several steps that can be done to minimize your current tax burden and proactively plan for the future.

Glenn M. Gelman, managing director of Glenn M. Gelman & Associates, says many businesses overly focus on short-term solutions. "The biggest mistake owners make is to plan for only one year at a time without carefully considering a longer-term perspective."

"Often clients will attempt to minimize this year's burden without realizing its impact on their credit line and financing capacity. They might even go so far as to risk violating a loan covenant," he says.

*Smart Business* spoke with Gelman about how to ensure your tax planning goes smoothly.

## What are the most common mistakes most businesses make regarding tax planning at this time of year?

The most common mistake is not taking a broad view of your current year's operations, along with both past results and your projections for the future. Paying taxes this year might be preferable if next year you will be in a higher tax bracket due to deferred income or other circumstances.

Your level of profitability is an important consideration for the size and terms of any credit line you have as well as for determining the value of your business, should you be considering selling it. Minimizing current year taxes by showing lower profitability might be counterproductive.

## How can businesses avoid those mistakes?

They need to meet early on with their CPA. If your fiscal year-end is Dec. 31, you should start planning in July or August. One common way of minimizing tax is to start a pension or profit-sharing plan. Those take months to implement properly. Even if you have such a plan in place, there are funding adjustments you can make to lessen your tax burden. Another consideration is your choice of entity. There are various advantages for C corps., S corps. and LLCs.



**Glenn M. Gelman, CPA, MST, CFF**  
Managing director  
Glenn M. Gelman & Associates

## If your company has been hurt by the current economy, what options do you have?

First, look to see if you are in a loss position. If you are, you probably want to maximize that loss, and then do a careful carry-back/carry-forward analysis. But you must also work with your banks if you have loan covenants to get their permission to maximize that loss. You may be able to offset prior year taxes or reduce future tax obligations. The rules regarding Alternative Minimum Tax must also be factored in. Under certain circumstances, it's possible to carry losses back five years if your sales are less than \$15 million and Congress extends the 2008 rules. But every tax case is unique, and your CPA should be carefully working with you both from a historical and a forward-looking perspective.

## What factors influence the carry-back or carry-forward analysis?

The company, in conjunction with its CPA, has to project, based on agreed-upon assumptions, what the next year's tax burden might be. The two parties should also carefully analyze the current year-to-date and the last few years of historical results. One major component often relates to timing differences — revenue and cost recog-

niton that can potentially transfer items from one year to another. These decisions can be influenced by the choice of accounting methods or principles. In a healthy CPA/client relationship, the parties would look forward and back for at least two years each way. For example, if you were in a high tax bracket in 2007 and experiencing a loss this year, then you would want to go back to 2007 and offset as much of those taxes as possible. But it's important to note that no two situations are exactly alike. It's the specific circumstances and details that determine the optimal outcome.

## What steps should be taken to make 2010 a smoother and more profitable year?

The seeds of a successful year start with thorough and comprehensive planning — based on accurate and complete existing information as well as carefully considered assumptions going forward. For example, year-to-date financials should allow the CPA to predict what tax bracket the business will be in. As I previously mentioned, the choice of entity affects taxation. Elections regarding pension and profit-sharing plans can affect tax rates. Every type of pension plan has its pros and cons, and it should be monitored annually to see if it is providing the best tax benefit possible. The quality of accounts receivable should be considered to see if there are accounts that should be written off as uncollectible. Inventory must be priced properly because that affects taxable income. All accrued expenses deserve review to see if any should be paid before year-end or delayed. For those businesses that are very profitable, and yes, there are still many of them, strategies relating to Captive Insurance and ESOP creation should be examined.

Finally, let's not forget that federal taxes should not be our only area of focus. There are a variety of state, local, use and property taxes — all of which can have potential savings. Because existing low interest rates and equity valuations might not last forever, there are significant opportunities today for wealth transfer as well as estate tax minimization.

In summary, your CPA firm should be an integral and ongoing partner in the planning and implementation of your business strategy. <<

**GLENN M. GELMAN**, CPA, MST, CFF, is managing director of Glenn M. Gelman & Associates, Certified Public Accountants and Business Consultants. Reach him at (714) 667-2600 x214 or ggelman@gmgcpa.com.

**Insights Accounting** is brought to you by Glenn M. Gelman & Associates