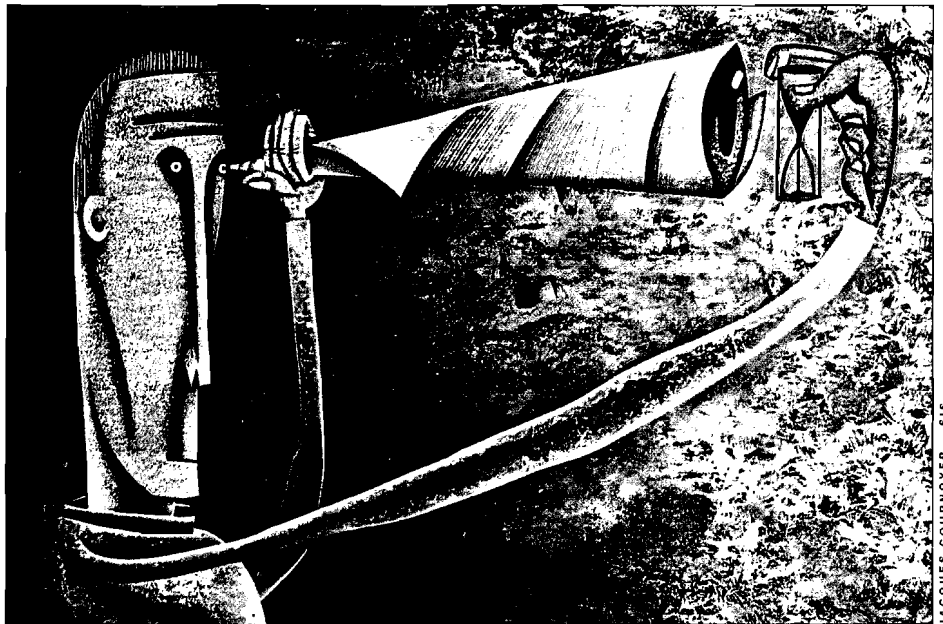


Last-Minute Tax Tips

Credits and deductions you may have overlooked.

By Peter Strozniak



Death and taxes are inevitable, but paying too much tax is certainly avoidable, even if you are up against a filing deadline. The trouble is that amid the turmoil of running a growing company, many executives and their financial advisors simply overlook common deductions and credits that can help their company's bottom line.

As the 11th hour approaches, tax professionals who specifically serve small to midsized manufacturers offer the following tax tips:

GIVE YOURSELF SOME CREDIT: Carl Stecker, founder and president of Net Profit Inc., Greenville, S.C., says there are more than 4,000 federal, state, and local tax credits available to business. Tax credits are beneficial because they can lower your tax liability dollar-for-dollar. For example, if your tax bill is \$10,000 and you have \$4,000 in tax

credits, your tax bill is reduced to \$6,000.

Stecker estimates that every year \$100 billion in tax credits are not used by business, in part because of the complexity, time, cost, and knowledge it takes to comply with these programs. Net Profit helps companies secure and keep track of all tax credits. But some of the credits, particularly on the state level and a few on the federal side, are easy to apply within your tax forms. For instance, improvements to your plant or office that make the buildings more accessible to the disabled can qualify for the federal disabled access credit. Credits for such improvements are not restricted to wheelchair accessibility, notes Robert F. Greenebaum, a former General Motors Corp. accountant who now co-owns Greenebaum, Saiger & Kasdin, a public accounting firm in Pittsford, N.Y. If a company sets up terminals to display products for the hearing-impaired, for example, that

qualifies for a federal credit.

Greenebaum agrees that some state tax credits are easy and simple to include in your tax forms. New York has an investment tax credit for any equipment purchased by a business. For the first year, manufacturers get a 5% tax credit for equipment purchased, and then a 2.5% tax credit over the next two years.

"It's a pretty straightforward and easy credit for any business to get," Greenebaum observes. Many other states have similar tax credits for equipment, he adds, but some are a bit more complicated than others.

Much publicity has surrounded the welfare-to-work tax credit. While accountants laud the credit, executives should remember that after they identify an eligible employee the paperwork has to be done within a certain time frame to secure the credit. Keep in mind that this credit also can be used for veterans, ex-felons,

summer youth employees, food stamp recipients, SSI (supplemental security income) recipients, and vocational rehabilitation referrals and high-risk youth.

OUT OF USE, OUT OF MIND: A frequently overlooked deduction is one for the abandonment of fixed assets such as machinery or equipment. In the year a business abandons a fixed asset, the company is allowed to deduct its undepreciated costs, says federal tax specialist Tom Ochenschlager in the Washington office of Grant Thornton LLP, a national accounting and management consultant firm.

Abandonment of fixed assets is particularly more common now because of the rapid changes in technology and automation. "There's a tendency to hang on to the [old] stuff thinking that you may need it some day, but you can get a write-off for it if you take it out of service and carry it out to the dump," he says.

Another tax benefit often missed is associated with plant relocations. When a manufacturer moves from an old plant the company is entitled to write off the fixed assets of the old plant that could not be moved to the new location. "If you abandoned a site, you can write off whatever is left that you have not depreciated," says Ochenschlager.

Additionally, according to the IRS, costs associated with moving equipment from one plant to another or within a plant may be deductible.

R&D CREDIT AND DEDUCTION: Small-business owners may be under the impression that to qualify for a deduction or credit related to research and development their firms need to operate an R&D department staffed with lab-coat-clad employees. That's not the case, says Tracy Hollingsworth, staff director for the tax councils at the Manufacturers Alliance in Washington, a policy research organization.

"If you are going to figure out a potential way to change how a product is manufactured or change what the components of the product are, there may be something there that qualifies, and in smaller companies that's probably something that is unexplored," Hollingsworth says.

The IRS currently allows deductions for costs associated with developing pilot models, processes, formulas, inventions, techniques, or patents. But in addition to this deduction, small companies also may be eligible for an R&D credit. For research that is used to discover technological information intended to make new or improved business components, a company may qualify for a 20% credit on the research costs.

"The credit and the deduction [may] interact," Hollingsworth says. "There are other hurdles that must also be surpassed in order to claim the credit, but both should be considered."

EXPENSE YOUR ASSETS: An expense deduction allows for the write-off of an asset acquisition of up to \$200,000 immediately, as opposed to having to capitalize the asset and depreciate it over five or seven years, says Erik R. Felsted, tax manager for entrepreneurial services at Ernst & Young LLP, Washington. For example, if you purchased new computer equipment at the maximum of \$200,000 in 1998, the allowable deduction is \$18,500.

CONSOLIDATE TO SAVE: If you operate two or more different plants or businesses you may want to consider consolidating them on your tax return if your firm is a C corporation. For example, let's say you decided last year to establish a small trucking company to provide quick or just-in-time deliveries to your customers. If the trucking company posts a loss, you can apply that loss as a deduction against the taxable income of your profitable plant. This can be done only when a company elects to file a consolidated return without changing the business structure of the companies, says Grant Thornton's Ochenschlager.

INVENTORY DEDUCTIONS: How you value your company's ending inventory using the lower of cost or market method can also reduce your tax burden, but is oftentimes missed by companies, Ochenschlager says. When reviewing the inventory of finished products, if you find they

35 cents per lb, you can write down your inventory for a larger deduction.

Throughout the year it's wise to remember that if costs for acquired products or manufactured goods are rising, as in inflationary times, using the last-in/first-out (LIFO) inventory identification method can mean major tax savings, according to advice compiled by Grant Thornton analysts. Simply put, move the most recent, expensive inventory off the floor first.

DEDUCT Y2K COSTS: Making sure your plant's software is Y2K compliant may be a headache, but getting a deduction for this business expense will provide some relief, says Barry E. Smith, a Bristol, Conn.-based certified public accountant. Manufacturers also may overlook the fact that they can secure a deduction for computer software that they specifically design to operate a plant. A deduction also is available for manufacturers that sell or lease their software to other firms, Smith says.

ROUTINE DEDUCTIONS: San Francisco tax attorney Frederick W. Daily, author of *Tax Savvy for Small Business, Third Edition* (1998, Nolo Press), lists a number of routine deductions that many small firms miss. Some of them include deductions for audio and videotapes related to business skills, bank service charges, business association dues, business gifts, casual labor and tips, casualty and theft losses, coffee and beverage service, commissions, consultant fees, credit bureau fees, office supplies, online computer services related to business, petty cash funds, seminars and trade shows, and taxi and bus fares.

"A lot of those are small things that nevertheless may add up when you think about it," Daily says. And just because you didn't get a receipt for them doesn't mean they can't be deducted. "For business expenses under \$75 each you don't have to have a receipt, but you do have to have some way to track it—like a notation on a calendar or diary or something like that, as long as it is reasonable and you're credible when you present this to the IRS," says Daily.

Another tip: According to the IRS, tools used in your business are deductible expenses if the tools have a life expectancy of less than one year. Additionally, unless uniform capitalization rules apply, the cost of replacing short-lived equipment parts in order to keep the equipment in good working condition—not to extend the equipment's life—also is a deductible expense.

SEEK EXPERT ADVICE: Finally, make sure you consult with your tax advisor before taking any credit or deduction. ■

Web Resources

www.irs.gov/prod/bus_info: Business tax information direct from the Internal Revenue Service.

www.netprofit.org: Net Profit delivers tax-credit information for small and large companies.

www.smbiz.com: Small Business Taxes & Management provides guidance and daily updates for small and midsized businesses.

www.tax.org: Tax Analysts Online provides worldwide tax information.

www.taxnews.com: Tax News Network is a resource for corporate tax professionals created by PricewaterhouseCoopers.

are being sold in the market for less than the costs to produce them, you can reduce the value of that ending inventory and take a deduction.

The same goes for raw materials inventory that includes commodities. For example, if you buy raw material at 50 cents per lb and the market value at yearend is