

Tax Tips

For Small Business

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Year-end Tax Strategies

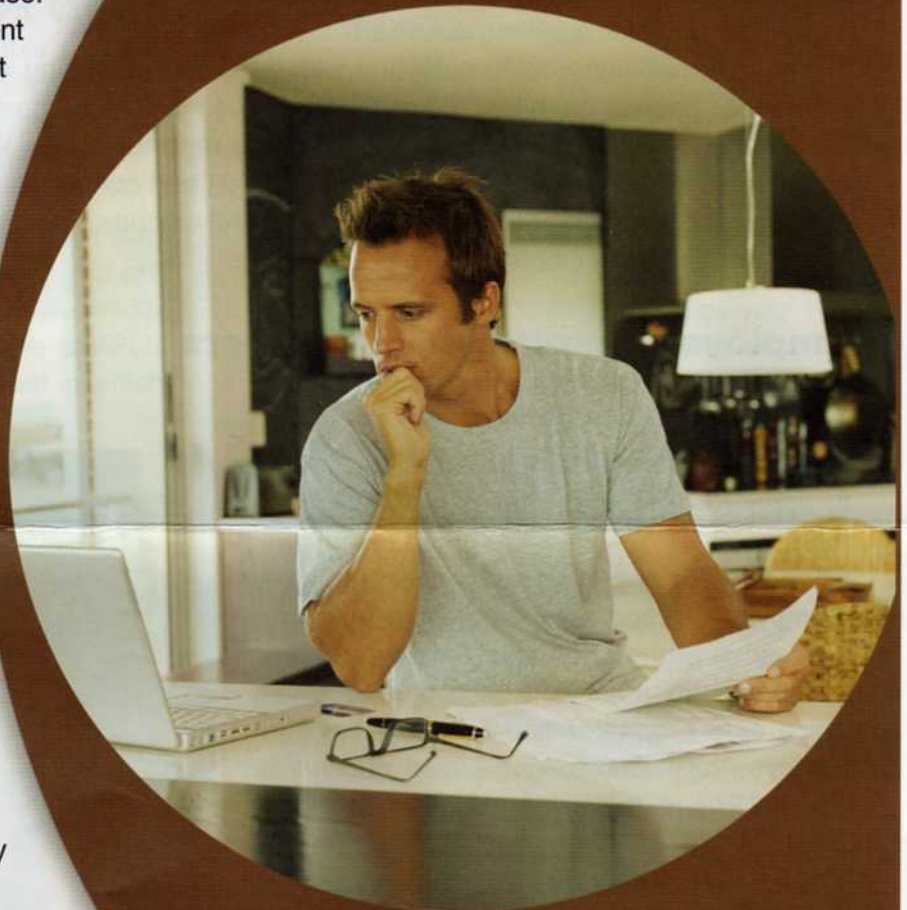
Why pay more than your fair share?

Another year is drawing to a close and you need to know what you can do to save a few dollars. The most common strategy is to increase your expenses. If you are a cash basis taxpayer, this can be accomplished by simply paying all the expenses you currently owe before the end of the year. Stock up on incidental supplies if you can. Generally, as a cash basis taxpayer, you are not allowed to prepay your expenses for certain things such as rent, interest, and salaries. These expenses must be prorated over the period of use. For example, you cannot pay for next year's rent and deduct it in full in the year of payment. It must be prorated over each month.

Accrual basis taxpayers have a bit more flexibility. Unlike cash basis taxpayers, these taxpayers generally are not governed by the time of payment when they deduct expenses. Accrual basis taxpayers are allowed a deduction for an expense when the amount can be determined with reasonable accuracy, the liability to pay the expenses is in effect, and economic performance has occurred.

Another common strategy is to defer income into the following year. If you can, it may be beneficial to delay billing your customers until the end of the year. If you are on the cash basis of accounting and your customers do not pay you until after the close of that year, you are not required to include the payment until the year you actually receive the income.

Are you thinking of purchasing some equipment? If you haven't already done so, how about taking the §179 deduction? The §179 deduction is not prorated no matter when you purchase the equipment during the year. For 2008, you may be able to write off up to \$250,000.





Reporting Fringe Benefits on Form W-2

Employers are required to properly report fringe benefits paid to employees

Some fringe benefits provided to your employees must be reported on their W-2. Proper inclusion on the W-2 ensures accurate reporting on the employee's income tax return.

There are many ways to provide employees with tax-free or tax-favored fringe benefits. Many of them are specially provided for in the Code or regulations. Some fringe benefits, such as employer-paid health insurance and qualifying meals and lodging, are completely nontaxable to the employee and are not reported on the W-2 at all. Others, like group-term life insurance, adoption assistance, and qualified transportation fringes (e.g., parking and transit passes), are nontaxable only up to a specific limit. Benefits provided in excess of these limits are taxable and must be reported as additional compensation.

Another group of benefits consisting of qualified pension, profit-sharing, and money purchase plans offers the employee a way of saving for retirement with pre-tax dollars. Employees who participate in these types of plans must have the appropriate box on their W-2 checked because they may limit the employee's IRA deduction.

If you are providing your employees with a flexible spending account or cafeteria plan, the benefits your employees choose must also be reported on their W-2. The most common benefit chosen is dependent care assistance. The money employees designate is reported on the W-2 in Box 10. This amount is needed so the employee can properly claim the child care credit and confirm the right to the exclusion if he or she is entitled to it. Correctly reporting fringe benefits on the W-2 ensures a proper deduction for you and the proper treatment on your employee's income tax return.

Employer Identification Numbers

When do you need one?

There are several instances when you'll need to apply for a federal employer identification number (EIN). The most common instance is when you are operating a business and have employees. If you are operating a sole proprietorship and do not have employees, your social security number is all you need. If you are a sole proprietor and currently have an EIN, you will need to get a new one if you convert to a partnership or corporation.

You will not need a new EIN if you only change the name or location of your business, or if you operate at more than one business location. You may not transfer or sell your EIN, even if you are transferring your business to a spouse or other family member. Consult your tax advisor if you think you might need a new EIN.



