Column by Barbara Weltman

10 Steps to Year-End Tax Planning

As the eggnog starts to flow during the holiday season, far too many business owners overlook last-minute opportunities to take control of their tax picture and paint it to their advantage. How can you maximize your savings as the year draws to a close? Here are 10 easy steps.

Step 1: Add to your revenue. It's not too late to increase your cash flow by finishing up open jobs. Cash-method businesses can, however, defer the income (and the tax on it) to 2006 by waiting until the end of December to send out invoices for the work. The added week or so you wait for the funds translates into tax deferral for a whole year.

Step 2: Pay off accounts receivable. If you are on the cash method of accounting, settle up outstanding receivables before Dec. 31, so you can deduct the payments in 2005 -- and preserve a good credit record.

Step 3: Make capital investments. Upgrade your equipment -- from office computers and phone systems to furniture and machinery -- and write off the cost this year. If profitable, you can opt to expense up to $105,000 of equipment placed in service by the end of the year, instead of depreciating the cost over several years. The deduction is allowed whether you pay cash or finance the purchase.

Step 4: Stock up on supplies. Pile up your copy paper and other supplies that you'll use in the coming year to deduct their cost now. You'll also save on money through better buying (e.g., bulk purchases).

Step 5: Distribute profits. If 2005 has been a good year for your business, pay out earnings -- and take a deduction -- in the form of bonuses to your staff. Corporations may want to distribute profits as dividends to owners. While dividends are not deductible by the corporation, they are taxed to owners at no more than 15%, a rate that may be less than the owners would pay on additional compensation.

Step 6: Save for retirement. You have until the last day of 2005 to set up a profit-sharing or other qualified retirement plan for the year by signing the paperwork with a financial institution. You then have until the extended due date for your 2005 return (e.g., Oct. 16, 2006, for sole proprietors) to complete contributions to the plan that will be deductible on 2005 returns.

Step 7: Make charitable donations. In this post-Hurricane Katrina era, businesses can provide substantial assistance to organizations aiding storm victims or other causes through cash donations. For instance, consider a leave-based donation program for your staff -- they forego vacation pay, sick leave, and personal days, and you donate these funds solely to hurricane relief efforts for a charitable contribution deduction. And since the money isn't taxed as compensation to employees, you avoid the payroll taxes you'd otherwise owe.

Step 8: Get slow movers off your books. Sitting with inventory that just won't sell? To claim a write-off, offer the items for sale at a huge discount. If they don't sell, you can take a write-down -- by removing them from your inventory account.

Or, you could donate inventory items for a charitable contribution deduction. C corporations can take enhanced deductions for donations of certain inventory items (e.g., computers and peripherals donated to schools and libraries).

Step 9: Adjust your estimated taxes. Don't make an interest-free loan to the government by overpaying estimated taxes. Calendar-year corporations should reassess their fourth installment of 2005 estimated tax due on December 15, 2005. Owners of unincorporated businesses should do the same for their estimated taxes due on January 17, 2006.

Step 10: Get ready for 2006. Tax laws that first become effective on Jan. 1, 2006, present new opportunities for tax savings. For example, if you own your commercial space and make certain energy-saving improvements, you can deduct them at $1.80 per square foot. Home building contractors may qualify for a tax credit up to $2,000 for building an energy-efficient home.