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Three Smart Steps to Reducing Your Taxes

If you want to pay less in taxes (and put more of your cash into your pocket or into your marketing and advertising budget) when you file your return, you should make sure you don't make the mistake most business owners make every year.

The vast majority of business owners overlook two very important tax saving opportunities each year. Why? Because they think that reducing taxes means accelerating expenses into the current year that would otherwise be incurred or paid early in the coming year. That's one way to reduce your taxes, but it's not the only way.

Here's a strategy that can create deductible expenses this year without you having to lay out any cash at all this year. There are two assets on your balance sheets that hold these hidden tax-deductible expenses.

Accounts Receivable

Here are three smart steps you can take right now to reduce your taxes related to the accounts receivable on your balance sheet.

1. Print an aging of your accounts receivable from your accounting system.
2. Look at every receivable over 90 days old and determine which of those accounts will never be collected.
3. Write these accounts off as bad debt expense in the current year.

I have a client who did this and discovered (much to his surprise) over \$475,000 of accounts that needed to be written off as bad debts. At a 34% tax rate, that means a tax savings of \$161,500. (He also learned during this process that the people he had in charge of collections were not performing to his expectations. He fixed that problem real fast after this simple three-step process.)

Inventory

This is another area often overlooked. Here are three smart steps you can take to determine if you have obsolete inventory that needs to be written off.

1. Print a listing of your entire inventory by date purchased.
2. Depending on how your operations are set up, take a walk and physically look at all the

inventory you can. Make an honest assessment of which inventory items are damaged, worthless or obsolete.

3. Write off worthless inventory and write down inventory that is damaged or obsolete.

I recently worked with a client who discovered one of their companies had, over a two-year period, built up excess inventory to the tune of over \$820,000. Much of that excess inventory had become old and basically worthless. This three-step process helped him discover the problem and ensure that the company deducted those costs on its current-year tax return.

Hundreds of thousands of dollars ended up in their bank account that would otherwise have been in Uncle Sam's pocket.

Not only will you discover some worthless inventory you need to write off and get rid of, you will also be reminding yourself how important it is that you manage your inventory very, very closely.

In many businesses managing inventory properly is the difference between being financially successful or constantly struggling just to make payroll.

Use this process to discover any tax deductions you should be taking this year. Also make sure you and the people in your company manage these two assets with the care and attention they deserve.

You will create a more prosperous and successful company in the process.

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