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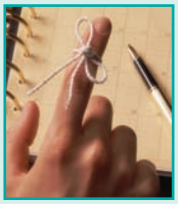

Midyear's resolutions

5 business tax strategies to consider right now

Like most things in life, tax planning shouldn't be a last-minute affair — especially for business owners. That's why you should resolve to give away fewer tax dollars by beginning your "year end" tax efforts right now. Here are five ideas to get you started.

1. Queue up for QPAD

This year, your company may be able to deduct up to 3% of its net income from qualified domestic production activities. The percentage increases to 6% next year and to 9% in 2010.

This valuable tax break, formally known as the qualified production activities deduction (QPAD), is also sometimes called the manufacturer's deduction. But construction businesses, engineers, architects, software developers, agricultural processors and many other types of companies can also claim it for eligible activities conducted substantially within the United States or its possessions.

QPAD is limited to your taxable income for the year — in other words, you can't use it to generate a loss. It's also limited to 50% of the W-2 wages your business pays its employees. This can be an obstacle for sole proprietors who don't take a salary, S corporations paying modest owner salaries to minimize payroll taxes, and companies that rely heavily on independent contractors.

If your business engages in qualifying activities, review your compensation policies. You might have an opportunity to maximize the deduction by increasing salaries for the remainder of the year or by converting some independent contractors into employees. The advantages of the increased deduction may outweigh the additional payroll taxes.

2. Buy into Section 179

You must capitalize and depreciate most equipment over several years, but the Section 179 expensing election allows you to take a current deduction for up to $108,000 in qualifying asset purchases.

This limit, however, is reduced dollar-for-dollar once your total expense for the year exceeds $430,000. Both limits are scheduled to be adjusted for inflation in 2007.

Bear in mind that the generous expensing allowance may be temporary. In 2008, it's scheduled to be scaled back to $25,000, though Congress has been discussing extending and even increasing the current higher limit. Therefore, keep an eye on tax law changes and consider making planned expenditures during 2006 and 2007.

Generally, you'll maximize your Sec. 179 benefits by allocating the election to assets with the longest depreciable lives. But be sure to examine how Sec. 179 will interact with other depreciation rules. Depending on your situation, you may need to adjust your expensing strategy to make the most of depreciation deductions. Also, look into the potential impact of the alternative minimum tax.

3. Review C corporation compensation

If your business is set up as a C corporation, you probably know that your profits are taxed twice: once at the corporate level and again when they're distributed to shareholders as dividends.

To minimize this double taxation, most C corporations distribute as much of their earnings as reasonably possible in the form of deductible expenses, such as salaries and rent, rather than in the form of dividends. But with tax rates on dividends at all-time lows, double taxation isn't always such a bad thing.

Suppose you're the sole owner of a C corporation and you're in the 35% tax bracket. Instead of taking out all of your company's profits as salary — and subject to a 35% tax rate — you may be better off leaving up to $50,000 in the corporation, paying the corporate income tax and distributing the balance as dividends.

Why? Because the first $50,000 of corporate income is taxed at only 15%, leaving you with $42,500 in dividends, which are currently taxed at 15%. The combined tax rate is 27.75%. Presuming you would have paid $50,000 in salary and are taxed at the 35% rate, your savings (ignoring payroll taxes) would be $3,625.

> *With tax rates on dividends at all-time lows, double taxation isn't always such a bad thing.*

4. Ready yourself for retirement

Maximizing contributions to an employer-sponsored retirement plan — such as a 401(k) or Savings Incentive Match Plan for Employees (SIMPLE) — is a great way to take advantage of tax-deferred compounding while generating current tax savings for both yourself and your employees. Employer contributions are deductible, and employee contributions are pretax.

If you're self-employed or a sole proprietor, consider setting up a Keogh plan, Simplified Employee Pension (SEP) plan and/or Solo 401(k) plan. Depending on your income and business structure, you can contribute as much as $44,000 this year to a Keogh or SEP plan — plus an additional $5,000 catch-up contribution if you're 50 or older and you combine it with a Solo 401(k) plan.

Individually, Keogh and SEP plans aren't eligible for catch-up contributions. Solo 401(k)s do qualify, but they're limited to $15,000 in contributions annually or $20,000 with the catch-up amount.

You have until Dec. 31 to set up a Keogh or Solo 401(k) plan, but you can make contributions as late as your tax-filing deadline (including extensions). The deadline for both setting up and funding a SEP plan is your tax return due date (including extensions).

5. Bounce back from bad debts

If you anticipate claiming any bad debt deductions on this year's return, start planning now. You're allowed to write off worthless debts, but to support the deduction you'll need to show you took reasonable steps to collect during the year — in other words, right now.

At the very least, send a letter to the debtor demanding payment. Evidence of the debtor's insolvency or bankruptcy can also support your claim. It isn't necessary to go to court, or even to wait until the debt is due, so long as you can show that there's no chance of collecting.

Find a keeper

A midyear review of your tax situation can yield many valuable ideas. To be effective, however, most ideas require some preparation time, so start "thinking taxes" as soon as possible. You may finally make a resolution you can keep!

What's the worst that could happen?

For businesses, lack of planning could be the greatest disaster

Last year's Hurricane Katrina served as a graphic example of how a single natural disaster can affect a broad range of industries, from oil drilling to retailing. And it prompted many business owners to take disaster planning more seriously.

As we head toward the one-year anniversary of that tragic event, let's examine why disaster planning is (still) important and look at some of the big-picture issues you'll need to consider in this area.

Protecting your people

If you question even in the slightest whether your business needs a disaster plan, ask yourself, "Why do we have insurance?" You buy policies to protect your employees and property from financial losses stemming from occurrences such as fire and job-related injuries.

But, as important as insurance is, it allows you to mitigate only part of the risk. Your coverage will presumably help you recover what is physically lost, but it can't bring back the revenue shortfalls caused by a disaster.

Many tangible assets, such as computers, are replaceable. Yet the cash flow stymied by, and profits lost to, ruined intellectual property, nonexistent sales or undelivered products may be permanent.

That's why, above all else, your disaster plan needs to account for your most precious assets — your employees. They are the key to maintaining both your company's goodwill and its productivity during and after a crisis.

> *As important as insurance is, it allows you to mitigate only part of the risk.*

Therefore, you'll need to formulate a plan that, initially, protects them physically and, eventually, ensures their continued compensation. After all, they'll need to care for their families and remain available to work.

Thinking dark thoughts

So how do you get started? By thinking dark thoughts — that is, brainstorm scenarios, as many as possible, that could devastate your business. Ask yourself questions such as:

- What could stop us from operating for a day, a month or a year?
- What happens if our key supplier shuts down temporarily or permanently?
- What if a hacker or technical problem crashes our Web site?
- What if we suddenly lose power?

Dreaming up such calamities sounds like a job for a Hollywood screenwriter, but it's actually one of your duties. And, as if weather-related and man-made threats

**Learn from those who know:
Red Cross advice for business owners**

Name any disaster from the last hundred years or so and the Red Cross has been there to help. Here are some tips this organization offers business owners:

- ❑ Make phone lists of employees and customers, and keep the lists with yourself and your managers.
- ❑ Designate a remote voice mail number so employees can listen to and exchange phone messages.
- ❑ Get programmable call forwarding for your main business lines.
- ❑ Give a copy of your keys and alarm codes to an employee or friend who lives close to your business.
- ❑ Install emergency lights that turn on when the power goes out.
- ❑ Use surge protectors and battery backup systems for sensitive equipment.
- ❑ Buy a radio with a tone alert feature to alert you to severe weather.
- ❑ Maintain an ample supply of goods, materials and equipment you might need to keep your company running.
- ❑ Talk with your insurance agent about special needs your business may have.
- ❑ Keep food, water, medical and other emergency supplies on hand.

weren't enough, consider another type of disaster that could erupt on a global scale — bird flu.

Think about it: Sick or not, many employees would stay away from work. For this reason alone, you may want to immediately investigate telecommuting arrangements, because public health officials would encourage absenteeism. (Victims would generally be contagious for several days.)

The threat of bird flu should also prompt you to consider flexible sick-leave policies and crosstraining. If your ace software engineer can't work, maybe an administrative staffer with an interest in computers could fill in for a while.

You may wonder whether your business insurance covers losses arising from a pandemic. The answer is "probably not." So-called "contingent business income coverage" typically reimburses you for damages incurred after hurricanes, fires, other natural disasters and accidents, but the policy won't likely cover bird flu losses.

Communicating effectively

Another critical factor during and after a crisis is communication. You and your managers will need to concentrate on restoring operations, so appoint and train an employee to speak on your company's behalf.

This person's job will be to keep stakeholders abreast of your recovery progress. These parties include staff members and their families, customers, suppliers, banks, and even community opinion leaders. Train your spokesperson to conduct a multimedia campaign, spreading the word through channels such as your company's voice mail, e-mail and Web site, as well as perhaps newspapers and TV.

Of course, as the New Orleans crisis proved, you can't always rely on technology to stay in touch. Yet this sobering fact shouldn't stop you from anticipating crisis scenarios and rehearsing communication efforts.

Keeping it fresh

Whatever you do, don't expect to create a disaster plan and then toss it on a shelf. Keep it fresh by revisiting the plan at least annually, looking for shortcomings. For instance, if you intend to move the company to a backup facility, you must set up and regularly test that location's capacity to handle the sudden influx of people, supplies and equipment. And don't forget to consider any new threats.

You'll also want to keep it fresh in the minds of your employees. Be sure everyone — including new hires — knows exactly what to do by holding regular meetings on the subject or even conducting the occasional surprise drill. Also be prepared to coordinate with fire, police and government officials who might be able to offer assistance during a catastrophe.

Whatever you do, don't expect to create a disaster plan and then toss it on a shelf.

Avoiding apathy

No business owner enjoys considering the prospect of ruination. But don't let the unpleasantness make you apathetic about developing a disaster plan. It would be much more unpleasant for your employees to actually be harmed or your company to really be destroyed or severely damaged.

Moneylines: News briefs for businesses and individuals

Newspapers make headlines with many employment candidates. You may assume that, in this day and age, most job seekers are logging on to the Internet to look for work. Not so, says a report released late last year by the Conference Board, a nonprofit business membership and research organization. It found that three out of four candidates still use newspapers to scope out positions. Many of them do, however, augment their job search with Web-based job boards.

IRAs may soon offer easier withdrawals. Earlier this year, one major IRA provider began granting account owners previously unheard-of ways to access their funds, including checks, online bill paying and debit cards. Many observers believe this will soon become the prevailing trend. But if you've been nurturing your nest egg in an IRA, be careful — being able to crack it open so easily may cause you to lose track of your spending and run into potentially severe tax ramifications.

Fraudsters could pay to play with your business. A relatively new fraud scheme may pay your business a nominal sum — but it could also cost you an arm and a leg. The scam starts when the fraudster, often calling him- or herself a "marketing company," remits a small check to you — usually $5 to $10. Nice, huh? Problem is, when you deposit the check, the fraudster may obtain your bank account and routing number. And you can probably guess what happens next: You start seeing a series of debits on your account.

What do interest rates have to do with estate planning? Most people know the importance of interest rates when it comes to, say, buying a home or opening up a bank account. But when it comes to estate planning, interest rates matter, too — namely the Section 7520 rate. Although still somewhat low by historical standards, this rate has risen in recent years. That means trusts that flourish when the rate is higher, such as those that transfer real estate, may be worth a second look.

Conserving energy (not to mention tax dollars)

Newlyweds Tyler and Danielle believe strongly in conserving and protecting the earth's natural resources. They also like to save money. So they want to renovate their new home and buy a vehicle in an environmentally responsible manner, while also saving on energy costs. Imagine their delight when, during a visit to their financial advisor, the couple learned they could do just that — and lower their tax bills.

Their financial advisor begins by introducing Tyler and Danielle to last year's Energy Tax Incentives Act (ETIA). Although the law targets energy producers, it also offers a number of valuable tax breaks for energy-conscious consumers.

Hybrid vehicles

Starting this year, the couple can claim a dollar-for-dollar, nonrefundable income tax credit for buying an eligible new hybrid car or truck. The credit — which is available to individuals and businesses — is much more valuable than the previous clean fuel vehicle deduction. It's not available, however, for alternative minimum tax purposes.

For a vehicle to qualify, the manufacturer must certify that it meets government standards. And the amount of the credit depends on a vehicle's weight and projected fuel economy. For passenger cars and light trucks, for example, the credit can reach as high as $3,400. It's set to expire at the end of 2010, however, for cars and light trucks and a year earlier for heavy trucks.

In addition to providing a tax break for hybrid vehicles, ETIA also offers credits for advanced lean-burn technology vehicles, fuel-cell vehicles and alternative fuel vehicles.

Home improvements

Also beginning this year, Tyler and Danielle can claim a credit for money they spend on certain home improvements and equipment. The credit, up to a $500 lifetime limit, is equal to 10% of qualified energy-efficiency improvements installed in an existing home, plus the cost of certain "residential energy property expenditures."

Under ETIA, energy-efficiency improvements include:

- Insulation materials or systems designed to reduce heat loss or gain,
- Exterior windows (including skylights) and doors, and
- Metal roofs coated with heat-reducing pigments.

To qualify, improvements must be made to a principal residence — not a vacation home. They must be installed by the end of 2007 and expected to remain in use for at least five years. Not more than $200 of the $500 limit may be attributable to windows.

Residential energy property expenditures include up to $50 for each advanced main air circulating fan; up to $150 for each natural gas, propane or oil furnace or hot water boiler; and up to $300 each for electric and geothermal heat pumps and central air conditioners that meet certain energy-efficiency standards. To qualify for the credit, these items must be installed by the end of 2007.

In addition, for 2006 and 2007, homeowners may claim a credit equal to 30% of the cost (including labor) of installing alternative energy equipment in their homes. The maximum credit is $2,000 per tax year for qualifying solar water heaters and solar electricity equipment. For eligible fuel cell plants, the maximum annual deduction is $500 per half-kilowatt of capacity.

A nice bonus

There are many things Tyler and Danielle — and you — can do to help conserve energy and reduce fuel emissions. Plus, as a bonus, the tax code offers incentives for investing in the environment that will make it a little easier for them to do their part. ∎