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AN NOL IS NOTHING TO LOL ABOUT

FORTUNATELY, A TAX BREAK IS AVAILABLE

In Internet parlance, "LOL" is a commonly used abbreviation for "laughing out loud." In tax parlance, an NOL — or net operating loss — occurs when a company's allowable deductions for the tax year exceed its gross income. An NOL is obviously nothing to LOL about. Fortunately, the federal tax code allows a deduction for NOLs that recently has been enhanced for smaller companies. So it's well worth a business owner's time to learn the ins and outs of this valuable tax break.

The basics

To qualify for an NOL deduction, you must have business expenses in excess of your business income, though certain modifications apply. Generally speaking, once you incur a qualifying NOL, you have two routes available:

1. Carry back the NOL as far as possible and then carry forward any remaining amount, or

2. Elect to carry forward the entire loss.

Carrying back a loss will generate a current tax refund, which could free up cash flow during difficult times like these. Carrying forward a loss will offset income in future years. Previously, you could carry back a loss only two years in most cases. But the American Recovery and Reinvestment Act of 2009, signed into law earlier this year, extended the carryback period to up to five years for 2008 (not 2009) for certain businesses. You must have a loss caused by certain circumstances such as a business slowdown.

This may benefit businesses that didn't have enough net income in the previous two years to fully absorb their 2008 NOL. Because you can get back, at most, the taxes you paid in previous years, having additional previous years available may especially help if you earned little or no income in the previous two years.

Qualified small businesses with gross receipts of $15 million or less over a three-year period ending with the tax year of the NOL in question are eligible for the new extended carryback period.

A carryback in action

To illustrate the NOL concept, let's look at a fictitious example. Having suffered a drastic slowdown in sales, Company X, a qualified small business and a C corporation, shows a $50,000 NOL in the 2008 tax year.

Now, according to the rules, it can choose a carryback period for its NOL of anywhere from two to five tax years preceding the loss (first to the earliest year) and then carry forward any remaining amount for up to 20 years after the year in which it incurred the loss. So, Company X could elect to carry back the entire loss first to 2003 and, if its 2003 net income was $5,000, it could use $5,000 of the NOL to offset this income and receive a refund of the tax it previously paid on that income.

Then it would have $45,000 of remaining NOL to apply to the 2004 tax year, after which Company X will have whatever it hadn't used in 2004 to apply to 2005 and beyond until it exhausts the entire $50,000 loss.

Depreciation-related extensions make now a good time to buy

If net operating losses (NOLs) aren't a big issue because your business is making a profit this year, and you need to buy some new equipment or software, now may be a good time to do so. As you may have heard, the American Recovery and Reinvestment Act of 2009 (ARRA) extended the higher limits for the Section 179 initial-year expensing election for calendar year 2009 as well as for fiscal years beginning in 2009.

The Sec. 179 election may allow your business to take a current deduction for newly acquired assets that you would have otherwise had to depreciate over several years. Bear in mind, however, that you can claim the Sec. 179 election only to offset net income — you can't use it to reduce your net income below zero and create an NOL.

ARRA increased the expensing limit from $133,000 to $250,000. This election begins to phase out dollar for dollar when total acquisitions for the tax year exceed $800,000, which is up from $530,000.

On a related note, ARRA also extended special first year "bonus" depreciation for certain property in 2009. The property in question includes computer software, tangible property with a recovery period of 20 years or less, and qualified leasehold improvement property. The special depreciation amount is equal to 50% of the property's adjusted basis.

The carryforward alternative

Alternatively, Company X could opt to carry forward the full amount of its $50,000 NOL. In this case, the business can take up to 20 years to use it as long as the NOL is used to offset any net income each succeeding year. This could help reduce Company X's income in years when it might be in a higher tax bracket.

Going back to that $50,000 NOL, using it to offset income in a 35%-bracket year could save the business $17,500, while the same loss that offsets income in a 15%-bracket year will save only $7,500 — a $10,000 difference.

Thus, if the company reported low income in the previous five years and consequently fell into low tax brackets, it might want to save the NOL for a carryforward to subsequent years — particularly if future projections appear brighter. Company X may also want to opt for a carryforward if its alternative minimum tax (AMT) liability in previous years makes the carryback less beneficial.

No simple matter

Carefully applied, an NOL can help save a few tax dollars just when you could really use some extra cash to work with — or provide substantial savings in a future year when your tax liability is high. Ask your tax advisor about whether you qualify for an NOL deduction and, if so, how it should best be used. ❒

THE ABCs OF LTC

LONG-TERM CARE POLICIES STILL MAKE SENSE FOR SOME

When money is tight, planning for the future seems all the more difficult. This holds especially true for the distant future — where worries such as a lengthy stay in a nursing home or rehab facility may pale in comparison with an impending job loss or the sudden diminishment of a retirement fund.

Yet no amount of economic travail can completely negate the importance of guarding against future crises. Take long-term care (LTC) insurance as an example. Although one of these policies may appear to be a nonessential expense at the moment, procuring such coverage may still be the right move for some individuals. Deciding whether you fit the bill entails learning some of the ABCs of LTC.

A: Adjust your expectations

A very simple definition of LTC insurance might read, "An insurance policy that provides benefits for a chronically ill or disabled person over a long period." Yet many people assume these policies offer a sort of blanket coverage for most any extended medical need. In truth, LTC policies come in a variety of forms with very specific coverage provisions. So, when shopping for one, it's important to adjust your expectations accordingly.

Some policies cover both nursing home care and home-based care, while others cover only one or the other. Similarly, some policies base benefits on actual expenses (commonly called "reimbursement arrangements"), while others (often referred to as "per diem policies") provide daily payouts regardless of actual expenses. (The latter are far less common.)

B: Beware of limitations

No matter what a given policy covers, you should expect it to have some limitations regarding when benefits kick in. Typically, being unable to adequately perform certain activities of daily living (ADLs) will trigger coverage, but each policy may define these differently. In some cases, you might need the sign-off of a doctor, nurse or licensed clinical social worker.

Many policies also specify how long you'll need to wait for benefit payouts to begin after care is initiated — known as an "elimination period" in insurance terminology. Common elimination periods include 30, 60, 90 and 120 days. Generally, if all else is equal, the longer the wait, the less expensive the coverage.

In addition, the term of coverage may be limited. A five-year term is fairly common. Most LTC insurers do offer lifetime coverage, but it's obviously more expensive. Another upgrade to consider is inflation protection — it's rarely included upfront but typically worth the extra cost.

C: Consider the tax impact

As you might expect, LTC coverage has a tax impact. The most straightforward way to avoid negative tax consequences is to obtain a qualified LTC plan. Under one of these, you'll receive benefits tax free and be able to deduct part of your premiums as medical expenses. Limits on these deductions increase based on the insured's age. In 2009, the limits range from $320 if you're 40 or younger to $3,980 if you're over 70. To claim the deductions, you must itemize and your combined medical expenses need to be more than 7.5% of your adjusted gross income.

To be considered "qualified," the plan must, among other things:

- ✓ Provide coverage for only qualified long-term care services, and
- ✓ Be guaranteed renewable.

While the definition of qualified long-term care services is detailed, essentially it means care provided to help someone who is unable to perform at least two of six ADLs for a period of at least 90 days, or who has a "severe cognitive impairment" that necessitates substantial supervision as protection to his or her health and safety.

A reach worth considering

An LTC policy may seem a bit of a reach at the moment, but it's a reach worth considering. After all, you may have more to protect years down the line when, we hope, the economy has made a full recovery. ❐

BARTERING SURGES AS CASH FLOWS DWINDLE

The word "bartering" may call to mind a bustling bazaar in some far-off port. Beautiful tapestries hang inside tents and steam rises from brass pots full of strange food while vendors, eager to make a sale, scream enthusiastically at passersby.

Yet, back here in the real world, as many companies' cash flows dwindle, the practice of trading for goods or services is very real — and surging. Many businesses are finding it a good way to combat today's credit-stingy economy.

Catching on

So how popular is bartering becoming? Just last year, some quarter million of North American businesses swung bartering deals valued in excess of $15 billion, per the Virginia-based International Reciprocal Trade Association (IRTA). Transactions involving small businesses made up $11 billion of that figure — up from $10 billion in 2007, says the IRTA.

Other bartering organizations have seen similar jumps. An executive with the National Association of Trade Exchanges reported a 10% to 12% rise in new clients signing up for organized barter exchanges in 2008. And Georgia-based NuBarter.com saw its transactions double in number in late 2008 through early 2009.

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As you might have guessed, bartering typically takes place via one of these organizations or others like them. Typically, you join a bartering group for a nominal registration fee, and the group receives a commission percentage on each bartering transaction.

In return, you gain access to a network of companies willing to barter goods and services. Generally, you receive an account of "barter credits" that you can use to obtain goods and services. Many groups offer a line of credit up front — a major enticement nowadays.

Then, every time you complete a bartering transaction or, in some cases, simply offer a specific product or service for bartering, your account grows. Some organizations structure transactions as 100% bartering, while others do so on a 50% cash–50% barter basis.

Giving to get

As mentioned, perhaps the biggest enticement of bartering is conserving cash flow. Say an HVAC contractor desperately needs to upgrade his company's Web site. All he needs to do is find a Web developer shivering (or sweltering) in her office and a deal can soon be struck. Little to no cash changes hands, yet both have their needs met.

Another intriguing upside to bartering is settling past-due accounts with customers. For instance, a cleaning service might arrange for one of its late payors, an auto repair shop, to provide tune-ups on all its vehicles.

Naturally, bartering may not be a slam dunk for every business. Your goods and services must fit the needs of other companies in the group you join. If they don't, your odds of arranging a transaction are pretty low. And even if a good fit is out there, you'll likely need to invest some time and energy finding it.

Putting in the work

The idea of putting in some extra work for little or no money in return may seem counterintuitive. But, in a challenging financial landscape, the effort may be well worth it. Just be sure to get as much as you give. ❒

Moneylines: News Briefs for Businesses and Individuals

Stimulus act expands tax breaks for education. If you have (or know) a child headed off to college this fall, now is a good time to review the American Recovery and Reinvestment Act of 2009's (ARRA's) education-related provisions. For 2009 and 2010, ARRA expands the American Opportunity education credit (previously called the Hope credit) to cover 100% of the first $2,000 of tuition and related expenses (including books) and 25% of the next $2,000 of such expenses per year for the first four years of postsecondary education. (Income-based phaseouts apply.) Also for 2009 and 2010, ARRA expands the 529 plan definition of qualified education expenses to include computers and computer technology, which means such expenditures can be paid for with tax-free 529 plan withdrawals.

Many companies use furloughs to avoid or delay layoffs. A recent survey conducted by business consultancy Watson Wyatt revealed that some businesses are seeking to skirt staff cuts by asking employees to take furloughs, or short-term unpaid hiatuses. Of 245 large U.S. companies surveyed, 11% had already used furloughs to save on payroll costs and 6% planned to do so sometime this year. The move can be controversial, as some particularly short-term furloughs may disqualify employees from receiving unemployment benefits. But, in many cases, a temporary layoff is better than a permanent one.

Grappling with economic uncertainties, Americans save more. The U.S. Commerce Department reported that, in January of this year, the personal savings rate of American consumers rose to 5% — a 14-year high. If you helped contribute to this bit of sunshine among the recent economic dark clouds, give yourself a pat on the back. And, if you didn't, start looking for some easy ways to boost your savings, such as making your own coffee instead of buying it and keeping up on your vehicle's scheduled maintenance.

Who stole your company's data? Quite possibly an ex-employee. Data theft can hurt a business in many ways. But who is likely to steal your prized information? The Ponemon Institute, a Tucson-based tech research group, sought to answer this question when it surveyed 945 adults who'd recently lost their jobs. Of those respondents, 60% stole company data. And 79% of those who stole information admitted knowing they were acting contrary to company policy.

COUPLE REVS UP SOME TAX ADVICE FOR VEHICLE PURCHASE

Debbie and Alex needed to buy a new car and they wanted to get as much money as they could for it. No, they weren't planning on flipping the car immediately after completing the purchase. They were thinking about taxes.

Earlier in the year, they'd read about the vehicle-related provisions of the American Recovery and Reinvestment Act of 2009 (ARRA), and they wanted to put one of its new tax deductions to good use. To discuss this and other vehicle-related tax breaks, they gave their financial advisor a call.

Their advisor began by asking whether the couple really needed a new car. After all, no one should buy a vehicle only (or even primarily) for a tax break. The couple explained that, yes, the purchase was necessary — Alex had just found a new job that involved a certain amount of travel, so they needed two cars.

Grabbing the new deduction

With that clarified, the advisor got into the nitty-gritty of ARRA's new sales and excise tax deduction for vehicle purchases. For starters, though Debbie and Alex do itemize, that's not a requirement for this tax break.

To qualify for it, they must buy a vehicle on or after Feb. 17, 2009, and no later than Dec. 31, 2009. The deduction may be limited based on modified adjusted gross income (MAGI), which is equal to adjusted gross income (AGI) subject to certain add-backs. Debbie and Alex aren't subject to the add-backs so, to take full advantage of the deduction, their AGI as a married couple filing jointly can't exceed $250,000. With an AGI between $250,000 and $260,000, their deduction will be limited. (For other filers, the AGI phaseout range is $125,000 to $135,000.)

Further, if the value of the vehicle they purchase exceeds $49,500, they won't be able to deduct taxes attributable to the value in excess of that amount. The deduction, in other words, can only be taken on the tax paid on the first $49,500 of the vehicle price.

Although they could instead take an *itemized* deduction for all of their state and local sales tax liability, including the sales tax on the vehicle purchase, that would preclude them from taking an itemized deduction for state and local *income* taxes.

Their advisor also noted that an above-the-line deduction is usually better than an itemized deduction because it reduces AGI, which could enhance the couple's ability to qualify for other tax breaks.

Other tax savings

Their advisor went on to say that there are other tax savings for Debbie and Alex to consider as well.

For instance, if the couple wishes to make an environmentally friendly choice, certain tax breaks first introduced in 2005 remain active for many hybrid vehicles. Plus, ARRA brought forth a credit of up to $7,500 for "plug-in" hybrids.

An opportunity for buyers

Although a new vehicle purchase would obviously cost Debbie and Alex some money, it could also be an opportunity to save some tax dollars. They were glad they called their financial advisor and got all the pertinent info. ❒

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