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San Francisco Chronicle

Businesses need to assess their tax situations before year's end Accountants can find ways to reduce liability for 2005

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Friday, November 25, 2005

It was clear to Scott Hauge even before he spoke with his accountant that 2005 had been a good year for CAL Insurance & Associates, his Sunset District insurance brokerage. His accountant confirmed the good news this week. So Hauge started taking steps to lower his tax liability before year's end.

"We're clearly looking for any expenses we can push into this year," Hauge said Wednesday. "We'll give bonuses to employees in about three weeks. And we'll probably give away \$25,000 to \$30,000 to nonprofits. I just had my employees identify charities that they would like us to give money to."

With one month left in the year, small companies like CAL Insurance have a narrowing window of opportunity to lower their tax bill for 2005.

One month -- especially this month, with its onslaught of holidays - - isn't enough time to make major changes in business direction.

But Bay Area accountants and tax experts say there are a number of relatively simple steps that small businesses can take before year's end to limit their tax liability.

Start by talking with your accountant to get an accurate estimate of your profits or losses for 2005.

"Determine if your income is where you want it to be for tax purposes," said Rich Gunn, an accountant with Burr, Pilger & Mayer in San Francisco, whose clients include CAL Insurance. "Most businesses find that (their taxable income) is too high and want it to go down."

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If you've had a profitable year and want to lower your tax bill, you can:

-- Make anticipated purchases now rather than in early 2006. "You can buy a bunch of supplies, equipment or computers as late as Dec. 31 and get a write-off for the entire year," said Bernard Kamoroff, author of "422 Tax Deductions for Businesses and Self-Employed Individuals."

-- Pay for services now that you will receive in 2006, such as maintenance contracts, Internet service contracts or insurance.

"Prepaid expenses that do not extend beyond 12 months ... can be deducted when paid, even though the expenses are partly for the next year," Kamoroff said. (But check with your accountant, because there are exceptions to this. For instance, you can't deduct next year's rent this year.)

-- Mail bills to your clients in January rather than December. That way, the payments will be recorded as income in 2006 rather than this year.

-- Set up a retirement plan such as a Keogh plan or a SEP IRA. "These are great because you can set them up now and deduct your contribution now, but the contributions don't need to be paid until you file your tax return," said Gunn. Check with your accountant about the kind of plan that would be right for your business.

-- Pay employee bonuses or make contributions to charity before Dec. 31.

-- Put your children to work. If you're a sole proprietor or a husband-and-wife partnership, you can employ your children and pay them up to \$5,000 per year tax-free. (Check with state labor officials to ensure that you're not violating child labor laws.)

"The kids don't have to pay taxes, as long as it's under \$5,000 and they have no other income," said Kamoroff. "Your business gets a deduction as long as it's real work. So you can't have the 17-year-old babysitting the 3-year-old. It has to be business-related work."

Meanwhile, some businesses face the opposite challenge: They didn't make money in 2005 but want to minimize their taxes for 2006.

If you have a business that isn't likely to end 2005 with a profit, you can:

-- Delay further purchases until January. That way you can count those expenses against your 2006 income, which hopefully will be larger.

-- Make an effort to collect bills that are owed to you before year's end.

"Say you set up a home business this year and bought lots of equipment," said Mary Canning, dean of the School of Taxation at Golden Gate University. "You've got bills sitting out there, but clients aren't writing you checks now. Make some calls to see if you can collect, so you receive income in the current year to absorb those expenses."

With any of these year-end tax strategies, be sure to consult your accountant or tax professional.

And don't overlook some record-keeping tasks that can make your financial year end a bit more smoothly.

Canning suggests that you review inventory carefully so you can mark down or dispose of excess items; review your accounts receivables so you can write off uncollectible bills; and start gathering accurate information for 1099 forms, the federal tax forms on which to report payments to independent contractors.

"The 1099s don't need to be filed until the end of January, but businesses may need to get new addresses" for their contractors, Canning said.

"Doing it now allows you to avoid surprises."

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Page C - 1

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