

T. Dennis Connally Consultant, P.C.
Certified Public Accountant

DECEMBER 2003

**Year-end tax planning for the small business especially
recommended for 2003**

Year-end tax planning for many small businesses should be especially rewarding in 2003. Through recent tax law changes, Congress is giving away substantial tax breaks to small businesses in an effort to jump-start the economy. While extremely generous, most of these tax giveaways carry annual deadlines. If you miss maximizing on a tax-saving opportunity in 2003, you cannot simply double up in 2004. Now is the time to take inventory of how your business is leveraging these tax breaks in 2003, and to take appropriate action by year-end.

Small business expensing

Retroactive to January 1, 2003, the size of available "section 179 expensing" (also called "small business expensing") has increased four-fold to \$100,000 annually. The ceiling on the amount of qualifying assets that may be purchased before phase-out of the deduction has jumped from \$200,000 to \$400,000, each year. This generous tax break, however, is temporary, for 2003-2005 only. Delay may be your enemy. If you wish to take advantage of the maximum \$100,000 limit for each year, action before year-end is required. Planning to maximize the section 179 deduction, however, should not be done without consideration of all relevant factors - it could short change your business on other deductions. Selecting assets with longer depreciable lives for expensing and choosing to depreciate assets with shorter lives, for example, usually works best.

Small business bonus depreciation

The special 30 percent bonus first-year depreciation also increases to 50 percent starting in 2003. To qualify for the higher percentage, however, property must be acquired after May 5, 2003, and placed in service before January 1, 2005. Unlike section 179 expensing, no dollar cap limits the amount of bonus depreciation that you may take each year. You can defer purchases into 2004 and not lose out on any part of this deduction. However, pushing all purchases into 2004 may raise the level of section 179 expensing property purchased that year, which can in turn lower available expensing under that deduction's phase-out rules. Depending on your income projections, you may even want to "elect out" of bonus depreciation entirely in 2003. In any case, gathering all the facts applicable to your particular business situation, and acting upon them before 2003 ends, is one general rule that all business owners should follow.

Timing matters

Year-end signals a business's last chance to balance the timing of income and deductions for tax purposes between the current and the upcoming year to your maximum advantage. Accelerating payment of expenses to generate deductions, deferring receipt of income to defer payment of tax on it up to a full year, carefully timing capital gains to match capital losses, and making last-minute contributions to charities or employee retirement plans are all possible steps to lower overall tax liability through year-end planning.

From the business owner's perspective, too, year-end planning is important. Final opportunities arise to impact the timing of a shareholder's or partner's net income from pass-through entities, to reassess dividends policies to accentuate the advantages of the new 15 percent maximum tax rate on dividends, and to maximize "qualified and non-qualified" deferred compensation contributions to key employees all play a role in lowering the overall tax bite on both a business and its owners. Coordination is essential.

Conclusions

Small business owners have too much at stake to leave their rights to the new wave of recent tax breaks to chance. Unless you already have re-evaluated your tax situation since this past May's tax law changes, and have had no changes in your business income or expenses since then, you should consider a call to our offices. An extra effort now can make a substantial difference when your tax returns are filed next year.