



T. Dennis Connally Financial Consultants, Inc.



AUGUST 2002

MAPPING OUT AN INCOME-TIMING STRATEGY FOR BUSINESS & PERSONAL



A traditional tax planning technique is to delay receiving taxable income until after the end of the year if it's economically feasible. By delaying income, you also defer your taxes on that income.

You might delay income by:

- Asking your employer to postpone paying your year-end bonus or a late-year commission until after the first of the year.
- Investing excess cash in Treasury bills that don't mature until next year or in certificates of deposit that won't let you take out interest without penalty until 2003. In each case, all the interest earned would be reported on your 2003 return—to be filed in 2004.

However, income deferral isn't always the best tax strategy for everyone. Some taxpayers can save money by accelerating taxable income into 2002, rather than deferring it to 2003, even though taxes will have to be paid earlier. Think

about your 2003 income situation. For example, will your spouse be returning to work after several years out of the work force? If so, your total income — and your tax bracket — could increase significantly next year. Or perhaps you have a child you'll no longer be able to claim as a dependent in 2003. The loss of that child's personal exemption could push you into a higher tax bracket next year. If you suspect your tax rate will be higher in 2003, see if you can:

Estimate Your 2002 Income

Wages, Salaries, tips, etc.	\$ _____
Interest & Dividends	\$ _____
Profit (loss) from business	\$ _____
Capital Gain (loss)	\$ _____
Rents, Royalties, Partnerships, S corporations, trusts, etc.	\$ _____
Unemployment Compensation	\$ _____
Alimony Received	\$ _____
Taxable Social Security benefits	\$ _____
Taxable distributions from IRAs, Pensions, and annuities	\$ _____
Refunds of state & local income	\$ _____
Other Income	\$ _____

- Arrange to receive a bonus or commission payment in 2002 rather than in 2003.
- Make a withdrawal from your traditional IRA earlier than planned, if you're over age 59 1/2.

The taxes you save may be greater than

the financial benefit from deferring the tax payment for a year.

Time Income for the Best Tax Results

Like individual taxpayers, business owners may find income-timing strategies useful in lowering taxes. If you expect your business to be in a substantially higher tax bracket in 2003, you may want to accelerate income into 2002. If not, deferring income is probably the way to go.

Your business' accounting method determines when you must recognize income and deduct expenses. Cash-method taxpayers report income items when actually or constructively received and deduct expenses when payments are actually disbursed. Accrual-method taxpayers must report these items for tax purposes in the year that their right to the income becomes final and all events have occurred creating the liability to pay the deductible expenses. In addition, you must be able to determine the amounts with reasonable accuracy. Here are two possible strategies for deferring income if your business is a cash-method taxpayer:

- Delay billing notices
- Use the installment method, if available, for sales of non-inventory property.

Note that the IRS is now allowing

more small businesses to use the cash method of accounting. Check with us as to whether the cash method would be appropriate for you.

As an accrual-method taxpayer, you might:

- Delay shipping products or providing services until the beginning of your 2003 tax year.
- Make year-end shipments FOB destination, rather than FOB shipping point, so title doesn't pass until next year. Income won't be realized until title passes.

Compare Your Personal & Corporate Tax Situations

Consider these tax factors when making decisions about distributing corporate earnings.

- Dividends are taxable to you and are not deductible by the company. In effect, the corporate income is taxed twice — once to the company and once to you. If possible, avoid dividend treatment by paying compensation to yourself and other shareholder-employees. But also note that some individuals pay tax at a higher top marginal rate than their C corporations.
- Corporate earnings paid out to you as compensation are included in your taxable income, but are deductible by the corporation. Thus, the income is taxed only once, to you.
- If you pay out earnings as compensation, be aware that the compensation must be "reasonable" for it to be deductible by the corporation.
- The IRS can assess a corporate accumulated earnings tax penalty on companies that accumulate excessive amounts of earnings. This penalty dropped from 39.1% in 2001 to 38.6% in 2002 and will continue to

decrease through 2006, when it will be 35%. Generally, a corporation can accumulate up to \$250,000 (\$150,000 in the case of certain personal service corporations) of undistributed earnings and profits without penalty. A corporation that has reasonable business purpose for accumulating greater earnings — the anticipated purchase of new equipment or the purchase or construction of new facilities, for example — is also generally safe from the penalty.



Bringing you a little humor...

Lemon Squeezer

The local restaurant was so sure that its host was the strongest man around that they offered a standing \$1000 bet. The host would squeeze a lemon until all of the juice ran into a glass, and then hand the lemon to a patron. Anyone who could squeeze one more drop of juice out would win the money. Many people had tried over time, but nobody could do it. Then one day, this scrawny little man came in, wearing thick glasses and a polyester suit, and said in a tiny, squeaky voice. "I'd like to try the bet." After the laughter had died down, the host said "OK," grabbed a lemon and squeezed away. Then, he handed the wrinkled remains of the rind to the little man. But the crowd's laughter turned to total silence as the man clenched his fist around the lemon, and six drops fell into the glass. As the crowd cheered, the host paid the \$1000 and asked the little man, What do you do for a living? Are you a lumberjack, a weightlifter or what? The man replied, "I work for the IRS."

We are pleased to announce our association with

THE NETWORK GROUP

Network Realty Group, Inc. Network Business Consultants

Larry W. Grady, Sr.
Broker
General Business Consultant

We Mind Your Business.

Services

- General Business Consulting
- Financial Management
 - Budget Analysis
 - Cost Analysis
 - Product Pricing
 - Expense Control
 - Cash Flow Analysis
- Loan Request Packages Prepared
 - SBA Guaranteed Loans
 - Conventional Small Business Loans
- Periodic Financial Review with your Bank
- Business Plan
- New Business Start Ups
- Acquisitions & Mergers
- Business Sales & Liquidations
- Periodic Review With Your Bonding Company
- Collection of A/R, Notes & Open Accounts
- Real Estate Sales & Management

Resources

- Accounting & Financial Services
- Bookkeeping Services
- Advertising & Marketing Specialties
- Life Insurance Policy Cash Conversion

Network = Professionals associated to cooperatively provide quality service on timely basis at affordable rates to small business

Please call or email Larry at 770-920-2890 ext. 10 or at www.networkgroup@tdconnally.com.

T. Dennis Connally, Financial Consultant Inc.
8484 Campbellton Street
Douglasville, GA 30134

Phone: 770-920-2890
Fax: 770-942-7180
Email: tdconnally@tdconnally.com

"Redefining Financial Consulting"
T. Dennis Connally, Financial Consultant Inc.

You'll want to consider the strength of your normal backup activities such as making regular backups of your data and maintaining a good paper trail of the important documentation from your systems. You'll also want to consider the frequency of your backups (how often the backups are done) and the storage of backups and paperwork both on-site and off-site just to be safe. This might be a good time to make arrangements to use another organization's work site in case you temporarily experience power outages or hardware and equipment failures. Or you might find other vendors who offer the products and supplies you need if your regular vendors or suppliers are not able to ship products to you.

In short, treating Year 2000 issues as natural disasters and evaluating your disaster recovery plan for your computer systems and other systems may be your best course of action.

A Final Note

No one knows for sure what will happen during the Year 2000 rollover, but it's always best to be prepared. We hope our suggestions are useful to you as you make your own plans. After all, the success of your company and your continued business with us is as im-

portant to us as it is to you. This article is not meant to be an extensive road-map on the direction you can take to prepare for the Year 2000. However, we hope it has provided you with some guidelines that can be used as a starting point. It is up to you to assess your company's needs and to choose the best options that will benefit your business in the next century.

"All of us here at

*extend to each of you and
your family
every good wish for the
holiday season"*

HERMAN

By Jim Unger



"Let's see. That's 18 volumes of 'Income Tax Made Easy.'"

NOTICE

Credit Policy Change

Effective September 1, 1999, any account that is more than 90 days past due will be automatically turned over to our collection service, and the credit bureau will be notified of the delinquent account.

TAX TIP

For the past three years, making investment decisions based upon their income tax consequences has been especially difficult since Congress made surprise changes to the capital gains rules in mid-1997 and mid-1998. There seems to be the potential for more changes in late-1999 in light of the "Taxpayer Refund and Relief Bill of 1999," which was recently passed by Congress. Provisions in this bill would lower the maximum capital gains rate to 18%, effective starting in 1999, and would index the rate for inflation beginning in 2000. Although President Clinton is expected to veto the bill in its present form, passage of the bill does send a signal to taxpayers that a lower capital gains rate is on Congress's agenda, and that rates could very well decrease in the near future. Although we can't predict which proposals become law, it is always a good idea to keep up with potential changes and to understand early in the planning process how they would impact your investment decisions.

Happy Holidays!