

# Ideas for Your Success

Fourth Quarter 2009

## Good riddance!

Thankfully 2009 soon will be gone, but that means it's time for year end tax planning

As 2009 nears an end, many companies are more than happy to bid it adieu. Thanks to one of the worst recessions since the Great Depression, this year hasn't been kind to many businesses' bottom lines.

No matter how your company performed this year, however, now is the time to turn your attention to year end tax planning. Consider these strategies to help reduce your company's tax liability, thus allowing you to increase the money available to reinvest in the business — or to simply pay your bills.

### To accelerate or defer is the question

The accounting method you use for tax reporting purposes can greatly affect year end tax planning. Cash-basis taxpayers recognize income when it's actually or constructively received and deduct expenses when they're paid. Accrual-basis taxpayers report income when it's earned and expenses when they're owed, regardless of when the cash actually changes hands.

**“The accounting method you use for tax reporting purposes can greatly affect year end tax planning.”**

A fundamental objective of year end tax planning generally is to defer income to next year and accelerate expenses and other deductions into this year. But a different approach may be called for if you expect your business's marginal tax rate to increase next year. In that case, you could be better off accelerating income into 2009 and deferring deductions to 2010.

Whichever approach is appropriate for your company, your strategy will depend on your ability to control the



timing of income and deductions, which in turn depends on your accounting method. A cash-basis business may be able to defer income to next year by delaying mailing invoices until late December or to accelerate deductions by prepaying certain expenses this year.

An accrual-basis business has less flexibility to shift income and deductions between tax years. Delaying invoices, for instance, isn't enough. The company would have to postpone shipping products or performing services until early next year, which may not be advisable.

### Advance payments may qualify for a tax deferral

Even if your company uses the accrual method of accounting, you might be able to defer the tax on certain advance payments. This option may be available if you receive payments *before* performing services or delivering goods.

It also may be available if you receive advance payments for certain guaranty or warranty contracts, certain memberships, the use of intellectual property and software, certain subscriptions, or the use of certain property, such as hotel facilities or trade show booths, if the use is ancillary to the provision of services.

[Good riddance! continued on page 4](#)



**WebsterRogers** LLP  
CERTIFIED PUBLIC ACCOUNTANTS ♦ CONSULTANTS  
[www.websterrogers.com](http://www.websterrogers.com)

*Florence, Columbia, Charleston, Myrtle Beach  
Sumter, Summerville, Litchfield, Georgetown*

## When credit is tight, cash is king

### Maintain a strong cash flow to ride out the credit crunch

The credit crunch resulting from the economic downturn can have a debilitating effect on businesses. With a tight credit market, companies are finding it difficult to secure short-term loans to make payroll and pay suppliers.

In the absence of credit, keeping your company's cash flow strong is a must. Let's examine some ways to keep it healthy.

#### Conduct a cash flow analysis

Analyzing your cash inflows and outflows — for operating, investing and financing activities — can help ensure that you maintain enough capital to meet rising costs. The analysis process involves preparing a cash flow statement that shows the net increase or decrease in cash. Unlike an income statement or balance sheet, a cash flow statement doesn't reflect future cash inflows and outflows.

Ideally, preparing cash flow statements on a weekly, monthly, quarterly and annual basis will enable you to effectively track your company's performance and available capital, so you can remedy or even head off cash crunches.

#### Improve inflows

After performing a cash analysis, take steps to improve your cash inflows by:

**Speeding collections.** Prevent delayed or unpaid collections on accounts receivable by assigning a specific person or team to focus on collecting accounts receivable.

“Analyzing your cash inflows and outflows can help ensure that you maintain enough capital to meet rising costs.”

**Focusing on your best prospects.** Target your marketing and sales efforts at developing long-term, more profitable relationships with prospects and existing clients that offer greater potential for generating frequent and large-volume, hassle-free repeat business.

**Pricing to profit and move.** Price products and services high enough to realize a profit margin yet low enough to sell steadily.



**Selling equity interests.** If necessary, raise capital by selling some of your ownership in the business to investors. But keep in mind that, by doing so, you'll likely be giving up some control of your business.

#### Tighten outflows

The flip side of effective cash inflow management involves efficiently managing capital outflows. Do this by:

**Reducing operating expenses.** Save by closely monitoring employee travel expenses and purchasing decisions. Also consider outsourcing noncore business function activities, such as payroll processing, HR functions or information technology support.

**Compensating employees effectively.** Pay a combination of a base salary with a commission or bonus awarded based on an employee's performance rather than just a salary.

**Delaying payables.** Don't pay bills any earlier than necessary unless you can benefit from an early payment discount. Also, seek opportunities to negotiate extended payment and free financing terms on purchases.

**Minimizing excess inventory.** Inventory management software can provide a more accurate demand forecast. Also, leverage just-in-time and vendor-managed inventory strategies to help prevent costly excess inventory levels.

#### Ease uncertainty with strong cash flow

In the current business climate, there are things you can control (such as operating within your company's means, cutting costs where necessary and focusing on your core strengths) and things you can't (such as whether you can secure a line of short-term credit). Counteract this uncertainty by controlling what you can to maintain a healthy cash flow.

## Where do you stand financially?

### Assessing your fiscal status after a difficult year

It's time for your annual checkup. No, not an appointment with your primary care physician — we're talking about a *fiscal*, not a *physical*, checkup. By any measure, 2009 was a tough year for individual finances, what with the stock market on a roller coaster ride, unemployment at a level not seen in decades and the scarcity of credit.

As the year comes to a close, take a deep breath and then take stock of your family's financial position. Doing so can help put you in a better position for 2010.

### What's your net worth?

To determine your net worth, create or update a net worth statement. A net worth statement is your monetary scorecard. It helps you determine where you stand financially and whether you're on track to meet your short- and long-term goals.

Essentially, net worth is what you own, minus what you owe. Calculate your net worth by adding all of your assets, including cash and cash equivalents, brokerage account balances, retirement funds, real estate and other fixed assets and personal property. Then subtract your liabilities, including mortgages, personal loans, credit card balances and taxes due. The resulting figure provides some important clues about where your money is going, and how you might even be able to trim spending and increase savings.

### Compensation-related elections current?

A major life change — such as a marriage or birth — may require an update to your W-4 withholding status. Also

be sure you're deferring enough of your salary to your employer-sponsored retirement account and contributing enough to your Flexible Spending Account (FSA) or Health Savings Account. It's generally smart to put in as much as possible, but bear in mind that, because the contribution will reduce your tax liability, your take home pay is reduced by less than the amount of the contribution. Your FSA contributions must be calculated carefully because you'll lose what you don't use.

### Do you have the right insurance coverage?

Insurance needs also change over time. For example, an unfortunate result of the recession is fallen home values. If your home's value has been affected, consider decreasing the amount of your homeowners coverage and thereby cutting your premiums.

In other situations you may need more coverage. For instance, if your family is growing, you may no longer have enough life insurance to protect them. Talk to your insurance professional to determine the right amount of coverage.

### Seek a professional opinion

Annually self-diagnosing your fiscal health is always recommended, and it's especially important this year because of the difficult economic conditions. But a self-diagnosis is no substitute for a professional evaluation from your financial advisor. He or she can help better position you for brighter days.

## The small fish doesn't have to be eaten by the big fish

### MEP centers help smaller manufacturers compete

In many industries there are big fish and little fish, and manufacturing is no different. Smaller manufacturers may have a smart business plan and the knowledge to carry it out, but they typically lack the technological resources available to larger manufacturers. To help smaller manufacturers succeed, the National Institute of Standards and Technology (NIST) established the Manufacturing Extension Partnership (MEP).

MEP is a nationwide network featuring extension centers and field offices in 50 states and Puerto Rico. MEP centers can connect manufacturers with government and trade organizations, universities and community colleges, and other public and private resources.

The NIST oversees the nationwide MEP network, acting as its coordinator, catalyst and manager. Specifically, the NIST coordinates the activities of the centers and offers ways for interstate offices to share knowledge and

services; monitors the effectiveness of the centers; and leverages federal and state partners to support manufacturers with business and manufacturing information.

MEP centers provide training, technology and other needed resources to manufacturers. More specifically, the centers offer:

- Information technology that now addresses continuity of services issues,
- Lean manufacturing programs that consider the entire enterprise, and
- Energy and environmental services that stress sustainability.

The NIST reports that manufacturers that have worked with MEP centers show improvements in processes, management and employee skill levels, and productivity growth.

Good riddance! continued from page 1

You can defer advance payment income for one year to the extent it's not recognized in revenue on an applicable financial statement, such as an audited financial statement or one filed with the SEC or another government agency (other than the IRS). Also, certain advance payments are eligible for a two-year deferral. Even if you don't have an applicable financial statement, you may still be able to defer advance payment income if you have a reasonable method for demonstrating that it's earned in a later year.

#### Say goodbye, but don't forget to plan

You may be eager to say goodbye to 2009, but don't do so until you consider year end tax planning strategies. Be sure to consult with your tax advisor to determine which strategies are right for your company.

#### Your retirement plan and year end tax planning

Did you know that your company can deduct contributions to qualified retirement plans in the tax year benefits accrue, regardless of whether you use the accrual or cash method of accounting?

If you're self-employed or own a very small business, this can be a particularly powerful tax-deferral tool. For example, you may be able to contribute and deduct up to \$49,000 to a simplified employee pension (SEP) plan for your benefit in 2009. You can open and contribute to a SEP as late as the extended due date of your 2009 return. If you establish a solo 401(k) plan before Dec. 31 and you'll be 50 or older by year end, you may be able to contribute and deduct up to \$54,500 for yourself.

By establishing a defined benefit pension plan, you may be able to contribute and deduct even more, depending on your age and income level. This plan generally works best for high earners age 50 and older.

Keep in mind that, if you have employees, you might have to make contributions to employee accounts in addition to your own.

This publication is distributed with the understanding that the author, publisher and distributor are not rendering legal, accounting or other professional advice or opinions on specific facts or matters, and, accordingly, assume no liability whatsoever in connection with its use. © 2009

**WR now offers all of our newsletters, via e-mail. Please send your request to have them delivered this way to you by sending a message to [wr@websterrogers.com](mailto:wr@websterrogers.com). Include newsletters by e-mail in the subject line.**



**WebsterRogers** LLP  
CERTIFIED PUBLIC ACCOUNTANTS ♦ CONSULTANTS  
[www.websterrogers.com](http://www.websterrogers.com)