



CRISER | GOUGH | PARRISH

November 2008

“Working together for you.”

Criser, Gough, & Parrish

Small Business Alert

Stephen M. Criser — Laura B. Parrish — Greg R. Gough

Tax Strategies to Help Your Company Ride Out a Recession

The impact of a downturn doesn't have to be traumatic — you can use tax breaks and smart business practices to help see you through.

Inventory

Offer slow-moving inventory for sale. If your inventory has declined in value, you can deduct the decline as a tax loss as long as you offer to sell the inventory at a lower price. Put the items up for sale for at least 30 days after taking a physical inventory and then carefully document your sales attempts.

Deduct shrinkage. Losses due to theft, breakage, bookkeeping errors, and similar occurrences is called shrinkage. Shrinkage can be deducted even if a physical inventory is not taken at year-end but, instead, at some time during the year (to determine the extent of shrinkage). You merely have to estimate inventory on December 31 to claim shrinkage.

Donate inventory. Can't sell it? Donate it to charity. The deduction for the donation is based on the item's cost basis, except for certain C-corporations which may be able to deduct fair market value. Important: After donating the items, remove them from your opening inventory account.

Sell Aggressively

Offer discounts and promotions to generate sales. You can't deduct price reductions — they simply reduce the income that you collect and are taxed on. Hopefully, however, you'll see greater revenue from your marketing efforts.

The Barter Option

Using barter to obtain the goods and services that your business needs will help you preserve precious cash. Bartering may be especially helpful in disposing of excess inventory. You can accrue barter credits through a bartering group or association that can be used later on.

For tax purposes, bartering does not let your business avoid

income — you must include in income the value of goods or services you receive in exchange for your goods or services. Barter transactions are reported to the IRS on Form 1099-B, *Proceeds from Broker and Barter Exchange Transactions*. Barter transactions are subject to sales taxes, just as if you had paid cash for the item. Therefore, you have to use cash to pay sales tax.

Bad Debts

If business bad debts become partially or wholly worthless, the business may be entitled to a bad debt deduction on its tax return. You must show that the debt has become worthless. Don't let your accounts receivable age without smart collection efforts. Note: If you deduct a bad debt that you recover in a later year, you may have to report the recovery as income in the year that you receive it.

Benefits of Abandonment

If you own property—equipment or inventory—that has lost all of its value to you, consider abandoning it to claim a tax loss. If the property is depreciable, abandonment allows you to deduct the remaining basis. This is treated as an ordinary loss. Abandonment requires a physical act, such as trashing the item.

Loss Carrybacks

When expenses exceed your revenues for the year, you may have a net operating loss. You can use it to get an immediate infusion of cash. You can carry back a net operating loss for two years. The loss carryback will offset your income in those years so that you can get a tax refund.

(Barbara Weltman, Esq. via Tax Hotline and www.BottomLineSecrets.com)

Criser, Gough & Parrish, LLC

9415 E. Harry, Ste. 602

Wichita, KS 67207

Phone: (316) 685-1040

Fax: (316) 687-5590

Website: www.crisergoughparrish.com

IRS Team to Scrutinize Tool Reimbursement Tool Plans

The IRS has announced it intends to closely scrutinize tool reimbursement plans used by employers.

The Service has established a cross divisional team to address significant concerns with certain Employee Tool and Equipment Plans, sometimes called Service Technician's Tool Reimbursement Plan, that purport to receive tax-favored treatment as "accountable plans" under Internal Revenue Code 62(c) and the accompanying regulations.

An expense reimbursement arrangement is a tax-favored accountable plan if it satisfies the three requirements of business connection, substantiation, and returning amounts in excess of substantiated expenses, and if it does not evidence a pattern of abuse of the rules applicable to such plans.

The Service is focusing on the fact that the majority of the plans being marketed are designed and operated around a structure that recharacterizes a portion

of the employee's existing pay as a "reimbursement" for the employee's tools merely to generate tax savings for both the employer and the employee.

These plans are widely marketed to various industries, including the automotive, heavy equipment, construction, aircraft maintenance, agriculture, and other industries. Taxpayers that are considering implementing such a plan are advised to take a cautious approach.

Read more about it at:

<http://www.irs.gov/businesses/article/0,,id=178028,00.html>.

Pursuant to federal regulations imposed on practitioners who render tax advice ("Circular 230"), we are required to advise you that any tax advice contained herein is not intended or written to be used for the purpose of avoiding tax penalties that may be imposed by the IRS.

Criser, Gough & Parrish, LLC

Penny Rader, Editor

9415 E. Harry, Ste. 602

Wichita, KS 67207

Return Service Requested

Phone: 316-685-1040

Fax: 316-687-5590

Website: www.crisergoughparrish.com
