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7 Year-End Tax Tips That Could Save Your Business Money

by Kristin Ewald on December 5, 2011

Tick-tock! The year is winding down, and it's time to review year-end tax strategies that could save your business a bundle.

Tax consultants who specialize in advising small and medium-size companies, such as Jonathan Huckabay, a certified public accountant and senior tax manager at Haskell & White in Irvine, Calif., have some smart ideas about how to take advantage of deductions and credits that start phasing out at midnight on Dec. 31. Here are a few:

1. **Buy new business equipment.** If you are planning to invest in new equipment like computers for the office, rotary saws for your carpentry shop, or trade-show booths for next year, consider making those buys *this* year. You can expense up to $500,000 of the cost in 2011. (The amount gets reduced dollar for dollar if you spend more than $2 million.) In 2012, the deduction will drop to $125,000, so investing now can yield measurable savings.

2. **Hire now and take a tax credit.** The current Work Opportunity Tax Credit for hiring people in nine different categories ends this year. Companies that hire unemployed veterans, people in designated low-income groups, high-risk youth, and others are eligible for a tax credit equal to 40 percent of each employee's first-year wages, limited to $6,000 ($12,000 for certain veterans).

3. **Cash in on R&D costs.** Let's say that you want to expand your flourishing flower business to include a line of freeze-dried tulips for delivery to supermarkets. Before you green-light the project, you will need to rent or lease additional equipment, buy special supplies, and hire workers to research and test the plan. Businesses that incur R&D costs are eligible for a dollar-for-dollar tax credit of up to 10 percent of qualified expenditures.

4. **Write off depreciable assets.** The "Bonus Depreciation" makes it possible to write off 100 percent of your first-year depreciation costs for assets bought and placed in service after Sept. 8, 2010, and before Jan. 1, 2012. This includes computer hardware and software, office furniture, photocopiers, certain improvements to real property, and other property and equipment with a depreciable life of 20 years or less. This 100 percent write-off will not be available next year unless Congress acts to extend it.

5. **Incent investors to put cash in your business.** If you are a C corporation with assets of less than $50 million and want to issue stock to raise capital, your potential investors should know that 100 percent of any gain from the sale of the stock will be excluded from their income. Certain rules apply: The qualified small-business stock must be issued between Sept. 27, 2010, and Dec. 31, 2011. It must also be acquired by an individual and held for at least five years.

6. **Save on solar energy.** Buying and using solar energy for your business before the end of the year entitles you to a credit equal to 30 percent of the cost of the property. This applies to solar energy investments made to generate electricity and to heat/cool structures and facilities used for business.

7. **Plan ahead.** You expect to remain at the helm of your business, but with the $5 million estate and gift tax exclusion set to expire in 2012, now is the time to a consider ways to save on estate taxes in the future. Business owners can transfer non-voting interests to their heirs and keep 100 percent of the voting interest. This allows you to move a large amount out of your estate while keeping control of the business. "For many owners, their business is second only to their family in importance," Huckabay says, "and how they plan ahead for succession can save their heirs a significant amount of money."

Note: Before embarking on any of these strategies, consult your professional tax adviser to discuss your eligibility.

About Kristin Ewald
Kristin Ewald, a former Time Inc. editor based in California, has written frequently for the SMB audience. She is also a small business owner who helps companies write and produce user-friendly websites.
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