Tax Laws Change: Be Sure to Know Your Options for 2011

It's the end of the year, and we have been reviewing things that you should consider to help close out your financial years successfully. One of the reasons to use a paid accounting service or CPA for tax planning is they stay current with the latest rules and regulations, so they can help you get the most out of your operation and maximize your tax savings.

This year as with every year, the tax laws are changing. Here are some tips on ways to save on taxes that may disappear after this year, complements of CPA Michael Custer and reported in *BusinessWeek*.

Custer notes that many small businesses are structured as S corporations of LLCs, which means the owner's personal taxes are intimately tied to their businesses. The flow-through income from the business has to be reported on the owner's tax returns. That's why it's vital to have an experienced tax planner help with your tax preparation, and why you need to be candid with your accountant.

Congress passed a number of new tax and job bills in 2010, including a number of new deductions for small business owners to deduct new and used equipment under U.S. Tax Code Section 179. Now companies can deduct the full amount of purchases up front rather than depreciating them over time. Deductions apply to personal property and equipment put into service in 2011, such as computers, furniture, telephone systems, software, machinery and the like. Leased equipment qualifies as well. This year business owners can deduct up to $500,000 in equipment; twice the amount for 2010. Businesses also can buy up to $2 million in equipment, up from the old $800,000 threshold, but that $2 million limit will start to drop after this year since it was targeted for small businesses with limited budgets. In 2012, the deduction is scheduled to drop to $125,000 and then to $25,000 in 2013; the same level as in 2002.

For companies that buy more than $500,000 in qualified equipment in 2011, they are allowed 100 percent depreciation, up from 50 percent for the previous year, and only apply to new equipment.

This year also offers bonus depreciation, where businesses that have no taxable profits in 2011 can carry their net loss forward to future years. This can be extremely useful for startups and struggling companies that are investing for future growth. Be sure to keep your receipts to reflect the fact you purchased the equipment during 2011.

If it makes sense for your company's financial situation, you can prepay state and real estate taxes, or accelerate deductions and defer income to offset you 2011 taxes. Many of these strategies only make sense if you are expecting a banner year in 2012; don't adopt prepayment strategies if they will adversely affect your cash flow.

You want to make the most of your tax deductions while those deductions are still available. Be sure to consult your accountant or tax professional and get the advice you need before the end of the year.