Baity & Assoc.
Tax and Financial Services, Inc.

6005 Fairmont Pkwy, Suite J • Pasadena, TX 77505
713-946-1040 Office • 713-946-9241 Fax
www.baitytax.com

CLIENT'S tax & financial UPDATE

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Year-End Tax Strategies for Businesses

Declare dividends. Qualified dividend income received during the tax year from a domestic corporation is generally taxed at 15% and as high as 23.8% for wealthy taxpayers in the top income tax bracket and as low as 0% for taxpayers in the lower tax brackets.

This makes it attractive for business owners to distribute cash through dividends, even more so for business owners and family shareholders who are in a low tax bracket and especially for those who are in the 0% tax bracket.

It is common for many businesses to not pay dividends in past years when dividends were taxed at high ordinary income tax rates. You should consider it now.

Additional opportunity: Gift shares of stock to family members who are in a low tax bracket before declaring a dividend, as part of a larger plan to shift ownership of the business to younger family members.

PASS-THROUGH ENTITIES

The owners of pass-through entities, such as S corporations and partnerships, have the income taxed on their personal tax returns. The key is to…

Have sufficient basis to deduct losses. The loss of pass-thru entities are deductible only to the extent the owner has basis in the entity. Basis is created by investing in the entity or making a loan to it.

If you are planning this year to deduct your losses check to see if your basis is adequate to absorb the losses. If it's determined your basis is not adequate to deduct the losses you can correct the situation by making a loan to your company by year-end.

Adjust personal tax payments to pay business taxes. The tax on

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taxPOINTS

Pitfall: Transfers of money to an IRA from a pension plan. There is a 60-day time period to transfer money from a company pension plan to an IRA. If the transfer is not made within 60 days, the entire amount will be subject to income tax. **Added pitfall:** If you have not reach age 59 ½, you will have to pay an additional 10% penalty.

Tax savings. Deferred compensation plans can be designed to defer salary or compensation to a later date. Under these plans, business people may elect to defer a determined amount of their income to a later year. This deferred income is then taxed only in the year received. These plans should be in writing and the decision to defer compensation must be made prior to earning that income.

Offset capital gains with capital losses. Should you have capital gains, review your portfolio to see if there are any stocks that you could sell at a loss. If you recognize the loss in the same year you have capital gains, you can use them to offset the gains. If you don't and you sell the stocks at a loss in a year you do not have capital gains you will be limited to deducting only $3,000 of the losses. Any excess may be carried forward to subsequent years.

Section 1244 Stock a Smarter Way for New Companies

If you are starting a new corporation be sure you issue Section 1244 stock. Why? Many small businesses fail and the loss on corporate stock is a capital loss that is offset against capital gains, and only $3,000 can be written off against ordinary income annually.

However , a loss incurred on the sale, exchange , or worthlessness of Section 1244 stock may be treated as an ordinary loss, even if the stock is a capital asset. Up to $100,000 for married individuals filing jointly ($50,000 for singles) may be deductible as an ordinary loss in any tax year. The main rules…

- The issued stock must be exchanged for money or property.
- Stock must be issued to individuals or partnerships
- The total of the money or property received by the corporation for issuance of the stock cannot exceed $1,000,000.
- The shareholder must be the original purchaser of the stock.
- More than 50% of corporation gross receipts must have been derived from sources other than royalties, rents, dividends, interest, annuities, and gains from the sale of securities.

Negotiating a Home Lease

Leasing a home can be an attractive alternative to buying in today's weak real estate market. Leasing with an option to buy is an increasingly popular way to acquire a home.

Whether the real estate market is strong or weak, the basic principles of lease negotiation remain the same.

- Set your priorities. Before you begin to negotiate, decide what is important to you. It might be a new refrigerator, interior painting, or a lower rent. Remember, everything is negotiable.
- Show that you are a desirable tenant. When a landlord feels that you will take good care of the property, you will be able to negotiate a better deal. Explain what you want in return for the fact that you are a responsible tenant.
- Do not sign a lease until all negotiations are over. Landlords are far less likely to agree to changes after a lease is signed.
- Do not eliminate the possibility of compromise. When you tell a landlord that you will not lease a property unless you get what you want, you effectively end the negotiations. Remember that half a loaf is better than nothing.

PHOTO: VSTOCK LLC/GETTY IMAGES/TETRA IMAG

Successful Strategies to Overcome Sales Objections

Learn to listen. The only way you can overcome a prospect's objections is to listen carefully so you really understand the prospect's concerns. Don't try to anticipate an objection until you actually hear it.

Discover the real problem. You might hear a number of objections, but your prospect might be reluctant to bring up the *real* problem, such as a clash he's having with his boss. If you've answered a series of objections and still haven't made the sale, it's time to ask the prospect if there's a problem that's keeping him from giving you an order.

Verify the problem. If a prospect says your price is too high, ask him if he will give you an order at a lower price. If his answer is "yes", you're on your way to closing the sale. Any other response means that price is *not* the real problem and you'll have to probe further.

Always ask questions. Don't try to overcome an objection unless you're certain you understand it. If, for example, you're selling office equipment, a cost objection could mean your selling price, or the cost of setup, or the cost of user training. You'll never know unless you ask.

Double-check your answers. To be sure you've answered an objection, *ask* the prospect, "Does that solve the problem ?"

Focus on benefits. For example, if a prospect objects to the cost of your product, point out the high *value* of the product in relation to its cost.

Better Marketing

Disciplined direct marketing.

Many businesses are finding that direct marketing offers a productive alternative to other channels of distribution. Many of the guidelines for direct marketing are the same as those for any other successful sales effort, but there's one cardinal rule the direct marketer shouldn't ignore: *Develop one winning product at a time and focus on it.* The best direct marketing doesn't confuse the prospect with various alternatives. It spotlights one product and concentrates on its benefit to the customer.

Don't restrict your direct marketing efforts to gaining new customers. In fact, the customers who have already bought your product are your best bet for direct marketing. You can go back to them again and again. And when you choose the focus for your initial direct marketing effort, you should be thinking about a followup – additional products that will appeal to those who have already responded to your first offer.

In short, it's OK to promote a group of related products, but sell them one at a time.

Conduct your own focus group.

Market researchers know that one of the best ways to get actionable marketing information is through a focus group – a forum in which a professional researcher poses questions to a group of potential buyers, distributors, or consumers. The questions asked in a focus group are usually different from those asked in a survey, where "yes/no" or multiple-choice answers are the norm. In focus groups the questions are open-ended. The person conducting the research doesn't look for specific responses, but asks for general opinions.

You don't need a costly formal focus group facility to do this kind of research. There's no reason, for instance, why you can't gather a group of your customers over lunch or late afternoon wine and cheese. In this informal setting you can invite, for example, suggestions about improvements or get reactions to ideas for new products. Your customers will probably be flattered that you've asked their opinion and you'll get a perspective on your business that may surprise you.

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Year-End Tax Strategies for Businesses (continued)

business income from a pass-through entity must be paid by the owner either through estimated tax payments or payroll withholdings. It is important for business owners to estimate how much income they will be receiving from the business in order not to be subject to penalties and interest charges for underpayment of their taxes.

You can avoid penalties and interest charges by having more taxes withheld from your wages before year-end. Taxes withheld from wages is treated as if it had been evenly withheld throughout the year.

Write down inventory. If your company has inventory that has declined in value you can deduct the decline in value. **For example:** Document a reduced market value for the inventory by making a bona fide offer to sell some of it at a lowered price within 30 days of year-end.

Set up deductible retirement accounts. Most company retirement plans, including 401(k) plans, must be set up by December 31 to receive deductible contributions for 2014. Other kinds of plans can be set up after year-end, but make your choice among all possible options before then.

Bad debts. These become deductible only when they lose all their value and by companies who use the accrual basis accounting. Review your accounts receivable for uncollectible accounts.

Save with a flexible spending account (FSA). Allows employees to pay for health care expenses, dependent care expenses, and work related parking and travel costs with pretax dollars saved from pay into a tax-favored spending account. The business owner saves employment taxes on these amounts and at the same time receives more from its compensation dollars by providing a tax-favored benefit.

Ten Major Personal Money Mistakes To Avoid

1. **Paying more taxes than you have to.** Keep good records so you get all the deductions you're entitled to. Shift income to a year when you'll be in a lower tax bracket. Shift deductions to a year when you'll be in a higher tax bracket.

2. **Not preparing for the unexpected.** Set aside at least two months income to protect yourself and your family from serious cash flow problems in the event of an emergency.

3. **Not putting your money to work.** Take all excess funds out of no-interest or low interest checking and savings accounts. Put the money to work in liquid but higher yielding places such as mutual funds.

4. **Not setting financial goals.** If you don't have goals, you can't make a plan to achieve them. Write down where you want to be and when. Then start making a plan.

5. **Making investments based on tips.** No matter how well-intended, a tip is the worst reason to make an investment. Investment decisions made under pressure are also unwise.

6. **Failing to have your will updated.** Your situation changes along with that of your heirs. Your will should always reflect your present circumstances.

7. **Not establishing credit in the name of each spouse.** No one likes to think about death or divorce, but not having credit can be much more than a minor inconvenience.

8. **Borrowing money when it's not necessary.** Not all interest is fully deductible. Interest deductions have been sharply curtailed. Don't assume tax benefits when you consider borrowing.

9. **Not keeping organized financial records.** Poor recordkeeping can cost you significant tax savings, cause you to make bad financial decisions, and leave your family with unnecessary problems if you become ill or die.

10. **Failing to put a yearly tax plan to work as early as possible.** Year-end tax planning can be costly. The sooner you put your tax plan to work the greater your savings.