SMALL BUSINESS

SMALL-BUSINESS REPORT

A year-round tax strategy

Making a plan and seeing it through can prevent headaches and expensive surprises at the last minute.

By Cyndia Zwahlen
Special to The Times

Laura Yamanaka isn't stressing over tackling her company's taxes.

With deadlines to file returns looming, she said she didn't have much paperwork left to do for her accountant.

As president of TeamCFO Inc. in downtown Los Angeles, Yamanaka recognizes that her company of financial and accounting executives for hire is probably ahead of the game compared with the average small business. But her secret is within reach: Tax time is not a once-a-year chore.

"A lot of people think, 'Oh, I have to do my tax return,' and it's totally separate from their business; but actually it ties right in," said Yamanaka, who founded her 13-person company in 2000.

Before the year begins, Yamanaka creates monthly income and expense projections, including taxes, for the coming 12 months and regularly updates them to reflect changes in the company's performance

ANNE CUSACK *Los Angeles Times*

PREPARED: *Laura Yamanaka, president of TeamCFO Inc., is already planning for her 2008 taxes.*

and prospects.

Around September, she meets with her accountant to see how close the tax assumptions are to what they estimate her tax bill will be.

That gives Yamanaka and her business partner, Carrie Tsang-Hiddin, a certified public accountant, time to make changes before the tax year ends, including the traditional strategies of postponing income until the following year and pulling deductible expenses into the current year.

An early heads-up also gives a business owner more time to find the money to cover a higher-than-expected bill.

Taking those steps will be even more important as the bumpy economy knocks small businesses around, experts said. CPA Lloyd Sreden in Stevenson Ranch is hearing from clients who haven't stayed on top of how changes in the economy affect their businesses.

"People aren't cutting back on costs fast enough and have debt piling up," said Sreden, a partner in Stern, Kory, Sreden & Morgan.

He has seen credit card debt increase as business owners, locked out of home equity lines of credit, seek other cash sources. If sales are going to go down 30%, then a business had better cut back on its expenses — either labor costs or inventory purchases — he said.

"Small-business people need to do budgeting," Sreden said. "That's very critical, especially in this kind of economy."

The IRS is looking more closely at auto expenses, said Sherman Oaks-based CPA Marilyn Rico. While she's never had a client come in with one of those nifty diaries you can buy at an office supply store, some clients find easier ways to detail their expenses than trying to re-create their travels on the eve of tax day.

Rico keeps an appointment book and writes down the mileage and purpose for each appointment. That can provide the kind of backup the IRS is looking for, she said. For 2007, you'll be able to deduct 48.5 cents per business mile.

Rico also advises obtaining a credit card just for business purposes. That makes it easier to keep tabs on business spending and to adjust spending or earning if necessary. Most provide year-end summaries of expenses.

Even if you don't take these steps, at least set aside 25% to 40% of the money you earn. If your business is fairly regular, Rico suggests having the money automatically deducted from your business' main checking account (you do have a separate business checking account, right?) and put into a separate business savings account or money market account.

Setting aside money for taxes is especially important if sales are booming.

"A lot of times they know they are making more money, but there is a disconnect that they have to pay more," Rico said.

A small business that sets aside a few hours each month to make financial projections, uses basic methods to track business expenses for employees and consults with a tax professional before the end of the tax year will reap many benefits. The business owner will be able to make better decisions faster and will have peace of mind knowing the tax bill is being covered along the way.

It will also help a small firm avoid owing penalties and interest on late tax returns and payments.

Tardy filers may be charged a 5% penalty for each month or partial month a return is late, up to 25%. So even if you can't pay all your taxes, at least file on time. That's what Sreden plans to do for a former real-estate industry client who didn't pay taxes all year as the industry sagged and now owes $8,000.

The client will still owe annual interest on the late taxes. The rate, which is determined by the IRS each quarter, was recently 7% for noncorporate filers. There will also be a penalty for the late payment. It's 0.5% per month, up to 25%.

The IRS allows you to charge your tax payment to your credit card, but that involves a convenience fee that in some cases is 2.49% of the tax owed.

Ouch.

So make this the year you get the help you need to set up and regularly update your financial system. Then next year you too will be calmly readying your final tax papers, with most of your tax bill already covered.

"If people would just take the bull by the horns and say, 'I'm not going to go through this again,' and just make the call, life would be so much easier for them," Yamanaka said.

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