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Midyear Tax Planning - Tax Strategies for Businesses

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As we approach the middle of the year, this is the perfect time to consider tax planning for your business and whether you need to make any changes to your current tax strategies.

1. Evaluate performance

Now is the time to take stock in how your business is doing. If the business is doing significantly better or worse than expected, adjustments may be made to minimize tax payments, or increase cash flow. For example, if income is lower than expected, taxpayers should consider revising their remaining estimated tax payments to account for the difference. While taxpayers enjoy receiving refunds at the end of the year, refunds are generated by overpayment of taxes, which equates to the grant of an interest-free loan to the IRS. If profits are up, taxpayers should consider increasing their estimated tax payments to avoid underpayment penalties.

2. Buy new equipment

If business is better than expected or the business will need new equipment, consider making those purchases now to both expand your business and earn tax write-offs simultaneously. Section 179 of the tax code allows a business to deduct the full cost of equipment, up to $25,000, as an expense, instead of capitalizing and depreciating that equipment as ordinarily required. To take advantage of this deduction, however, the equipment must be placed into service - not merely purchased - before the first day of next year, so making these purchases now allows time to get the equipment integrated into the business.

To explain the benefit of this deduction in real terms, consider this example: under current limits, if a business purchases $50,000 in equipment in 2015, the Section 179 deduction allows a write-off of the first $25,000, and normal accelerated depreciation on the remainder amount (20% of $25,000). The total deduction would then be $30,000, so a business with a tax rate of 35% would wind up saving $10,500 on the equipment purchase.

Additionally, it may be possible that Congress will reinstate a "tax extender" provision that expands the deduction limit as high as $500,000, as it has done for the past several years. In past years, some property that exceeded the Section 179 spending cap was also eligible for bonus depreciation under the tax extenders. This tax extender renewal has not taken place in years past until the very end of the year, so planning to take advantage of the higher deduction or bonus depreciation comes with a high degree of risk and quite a bit of waiting. While it isn't prudent to rely on Congress to extend favorable tax provisions, you could still reap an unexpected windfall should they do so.

3. Look after your S Corporation

Make sure that salary and distribution payments from your S Corporation are in the correct proportion to avoid higher taxes and increased risk of audit. If the S Corp is performing poorly and might take a loss, make sure that the basis in the stock of the corporation is sufficient to absorb the loss deduction taken by the shareholders, and add capital if necessary.

4. Meet with your tax advisor

Don't wait until the rush of tax season to discuss your financial goals and plan for the future. The best time for both you and your tax planner to have an unrushed time to make pertinent decisions is well before every other business feels the oncoming rush of tax preparation. Another benefit of this consultation is that you can put your advisor's suggestions into effect with enough time to benefit from them, rather than realizing after the fact when you go to file your tax return that you should have implemented changes in the prior year.

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