



Sushil Kumar, CPA, MBA

November 2012

STRAIGHT TALK

ABOUT SMALL BUSINESS SUCCESS

The newsletter designed to keep you on course to build a successful small business



The holidays are a time where we often return to our “roots.” We visit with family and old friends. Many of us return to the towns where we grew up for these seasonal festivities. Just as the roots we grow in our childhood can sustain us through difficult periods in life, the roots we grow in our business will sustain us through uncertain points in our business. Now is a great time to schedule a tax strategy session so that you can take advantage of changing tax rules that can put more money in your pocket and therefore help strengthen your roots. See, “Changing Tax Rules: Jump On NOW for Maximum Savings” for some insight on ways to save. We examine the idea of roots in a parable form in “The Fern and the Bamboo,” which is a stirring reminder to tend to what sustains us.

The end of year is always a good time to take stock in your business as well as your role as a business leader. When it comes to leadership, we all have room from improvement. We need to find opportunities to expand and grow outside of our comfort zone? Don’t miss, “School Yourself to Learn More About Leadership” to increase your professional knowledge through some conventional – as well as unconventional ways.

We wish you a safe and enjoyable Thanksgiving.

Sushil Kumar, CPA

Changing Tax Rules: Jump On NOW for Maximum Savings

Savvy business owners take heed: in the coming weeks, Congress will be addressing several items of pending tax legislation, and how you react **now** can save you big money on this year’s taxes. This is an ideal time to have a tax strategy session. Here are a few key issues we can examine together:

Buy Equipment Today for Tomorrow

Take advantage of two tax breaks designed to encourage the purchase of equipment, machinery and furniture.

Sec. 179 of the tax law is a first-year expensing deduction. For 2012, it’s limited to \$139,000 for new or used equipment placed in service this year (provided the business is profitable).

Sec. 168 is a bonus depreciation break, limited to 50% of the cost for new (not used) property, regardless of whether or not the business is profitable.

Note that there’s still a chance these rules will be changed for 2012 – and in this case, to your benefit. For example, it’s possible the 2011 limits will be adopted. For Sec. 179, the deduction may increase to \$500,000. For Sec.

168, the bonus depreciation limit could be raised to 100%.

Taking into consideration the current and potential tax breaks, your company may want to review its spending budget for the year and make some material investments.

Set Up 2012 Retirement Plans Now

Thinking of adopting a qualified retirement plan for your business? The tax rules for 2012 are set in stone, so you can

Continued on page 2

move ahead with confidence. However, be mindful of the deadlines: December 31, 2012 for most qualified retirement plans, including profit-sharing plans (with or without 401(k) features), and pension plans. For 2012 SEP plans, the deadline is April 16, 2013.

Start ASAP to get your paperwork completed with the financial institution managing your plan. As long as you meet the appropriate deadline, you'll have until the extended due date of your returns to make contributions for 2012.

Make Revisions to Flexible Spending Accounts

Until now, companies set their own caps on the amount of salary an employee could contribute to their flexible spending account ("FSA"). A typical cap came in around \$5,000. However, The Patient Protection and Affordable Care Act of 2010 lowered that cap to \$2,500, and it goes into effect in 2013.

What should you do about it now? Start educating your employees about the new limitations. If you handle payroll in-house, be sure to update your systems. Your plan must conform to the new law beginning in 2013, although you have until the end of 2014 to update your FSA documents.

Work That Section 1202!

Through the end of this year, Section 1202 of the tax code allows certain C corporations to offer stock with a kick: investors can obtain tax-free treatment for gains, provided they hold the stock for more than five years. There's a chance this rule may be extended beyond 2012, but as long as you have it now, why not take advantage? (Besides, if it is extended, the exclusion drops to 50% of gain on the sale of the stock.)

Note I said "certain" C corporations. This 100% exclusion of gain on the sale of 1202 stock (also known as qualified small business stock) can only be used by C corporations in technology, manufacturing, retail and wholesale. Additionally, the corporation's gross assets at the time immediately before and after the issuance of stock cannot exceed \$50 million.

Does your business qualify? You may want to give out Section 1202 stock to employees as part of their year-end bonuses.

Distribute Company Profits as Dividends

Why do this now? Although dividend distributions to shareholders are not deductible by the corporation, they are favorably taxed for individuals. Look at this: through the end of 2012, the maximum rate for qualified dividends received by individuals is 15% (but 0% for those in the 10% or 15% tax bracket). After 2012, this will change: dividends will be taxed as ordinary income at rates up to 35% -- maybe even higher. There is, however, a chance (not a guarantee) that this special tax treatment could be retained by Congress.

But wait, there's more! Dividends made to owner-employees are not subject to payroll taxes.

If your corporation makes dividend distributions before the end of the year, it can take advantage of the rules in place

now. (Note to S corporations: be careful about making disproportionate distributions that could create a second class of stock and terminate your S election.)

Pass-Through Entities? Check Your Basis.

Thinking of deducting a business loss on your 2012 returns? Make sure there's a sufficient amount to enable the full loss to be taken. Owners of S corporations, partnerships, and limited liability companies can only deduct the portion of the loss passed through to them to the extent of their basis.

For example, S corporation shareholders can loan money to their corporations to increase or establish basis in loans. Subsequently, they can take passed-through losses to the extent of this basis.

However, basis is not created by simply guaranteeing a third-party loan to the corporation. Basis is only created when and to the extent shareholders are called upon to pay this corporate debt.

With some timely action, we can help you to maximize your tax savings for 2012. What are you waiting for?

Business Question/Tip:

Q: Must a partnership or corporation file a tax form even though it had no income for the year?

A: A domestic partnership must file an income tax form unless it neither receives gross income nor pays or incurs any amount treated as a deduction or credit for federal tax purposes. A domestic corporation must file an income tax form whether it has taxable income or not.



The fern and the bamboo: A parable of perseverance

A village shopkeeper who was struggling to stay in business went to an elderly wise man in a nearby monastery for advice. "I've been working so hard for so long, but I feel like I'm getting nowhere," he complained. "Is there any reason why I shouldn't just give up?"

The monk took him outside to the garden. "Look at the fern and the bamboo," he said. "I planted them at the same time, and I gave them the same amount of water and fertilizer, month after month. The fern grew very quickly, but the bamboo did nothing from one year to the next. It was five years before the bamboo began to sprout—but once it did, it grew quickly, and in six months the cane had grown higher than the walls around the garden."

The old monk leaned forward. "The reason why it is so strong now is that it spent those first five years growing roots deep into the ground. Without those roots, it could not survive. But if I had given up on it in the first year, or the second, it would not be here. "Like the bamboo, you have been growing roots that will sustain you when your business begins to sprout. But if you give up now, all your work will have been for nothing. In time, you will rise high, but only if you tend to that which sustains you."

The shop owner saw the wisdom of the monk's words, and in time his business grew to be everything he'd dreamed off—just as the monk had promised.



The Miracle Golf Ball

Two golfers were approaching the first tee. One of them dug into her golf bag to get a ball, and then she turned to her friend. "Hey, why don't you try this ball? You can't lose it." The other woman, who had a knack for hitting golf balls out of sight, was surprised. "What do you mean you can't lose it?" "I'm serious. If you hit it into the woods, it makes a beeping sound. If you hit it into the water it makes bubbles. Even when you hit it straight down the fairway, white smoke comes up so you can find it right away." "Wow!" said her friend. "That's incredible! Where did you get it?" She shrugged. "I found it."



Congratulations to
Mr. Daulat Gurtata as
November's

Client of the Month

Congratulations to Mr. Daulat Gurtata, owner of J & M Wine & Liquor as November's Client of the Month. Mr. Gurtata has been a client of our firm for more than 6 years. His company, J & M Wine & Liquor, has a large selection of wines and liquors. They carry a variety of red and white wines as well as champagne and several brands of vodka, rum, gin, tequila and more.

The store is located in Lindenhurst, NY. To find out more contact Mr. Daulat Gurtata at dgurtata38@yahoo.com or call (631) 884-3341.



© 2012 Bob D'Amico • www.cartoonbob.com



Are You In Need of a Qualified Tax Pro?

If you are not my client and would like to explore whether we might be a good fit, please contact me. As a qualified tax professional, I not only know all the rules, but can also help you deal with the IRS and help you decide how far to push a dispute.

Do You Have A Tough Accounting / Tax Question You Want Answered?

I love hearing from my small business clients and friends who enjoy reading my monthly newsletter. I'm always looking to answer pressing questions you might have relating to small business.

If you have a question, tip or idea, please call me at (718) 261-2090 or email me at Sushil@bestcpasolutions.com. Perhaps I'll feature you in a future issue!

School Yourself To Learn More About Leadership

Try expanding your professional knowledge with these tactics...

Smart leaders never stop learning about their industry, their organization, and leadership itself. You don't necessarily have to go back to college. Try expanding your professional knowledge with these tactics:

- **Visit other businesses.** Many organizations will be happy to show you around and talk about how they do business. Be sure to reciprocate. And keep an eye open for real-life examples of success (and failure) whenever you're a customer, whether you're at your local coffee shop or negotiating with a vendor.

- **Network like mad.** Professional associations and trade shows are good places to network, but step out of your comfort zone. Make an effort to meet business leaders and other professionals in a wide variety of industries and organizations. You'll learn more

from different types of people.

- **Read biographies.** Seek out books about leaders in business, government, the military, and any other areas of interest. You'll be surprised by how lessons from history can apply to your own situations.

- **Take a course in something different.** Sign up for a six-week cooking class, or a drawing course. Observe how your instructors present information, motivate students, and keep control of the class. And get to know your fellow students so you can broaden your contacts.

- **Use a good filter.** As you pick up new knowledge, remember that not every good idea or technique will fit your situation. An approach that suited General Patton may not work in a nonprofit organization. Even a great idea may not be practical right now. Use some judgment in deciding which to put into action, or continue exploring, and which to discard.



Trinity Tax & Financial Solutions, Inc.

Close **P**ersonal **A**ttention to increasing your profits.

116-16 Queens Blvd • Suite 245

Forest Hills, NY 11375

(718) 261-2090 • www.bestcpasolutions.com

Email: Sushil@bestcpasolutions.com

Member: NY State Society of CPAs

Member: Queens Chamber of Commerce

See What's Inside...

Changing Tax Rules:
Jump On Now For Maximum Savings

The Fern And The Bamboo:
A Parable Of Perseverance

The Miracle Golf Ball

Client Of The Month

School Yourself To Learn More About Leadership