

Tax Moves That Boost Cash

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By Elizabeth Wasserman

The recession wasn't an easy ride for Big Bear Choppers.

The motorcycle company has built machines with patented frames, super low necks and names like the Screamin Demon, Devil's Advocate and Mis Behavin from its Big Bear Lake, California, headquarters since 1998. Price tags running upwards of \$35,000 revved the company's revenue to a high of \$20 million in 2007. That was before the recession and ensuing credit crunch drove financing out of reach for many would-be buyers, causing revenue to skid to \$7 million two years later.

When sales slowed, Big Bear Choppers looked for help with cash flow. With an assist from The Tax Credit Co., a Los Angeles-based tax consultant, the chopper company qualified for a federal research and development tax credit, a 30-year-old incentive designed to keep U.S. manufacturing from moving overseas.

By claiming the credit retroactively, Big Bear Choppers got a \$200,000 tax refund. But the company lost out on nearly \$400,000 more because the R&D credit can only be carried back one year. "I was hotter than a two-dollar pistol," CEO Kevin Alsop says. "Our last accountants didn't have a clue."

Like Big Bear Chopper, cash-starved companies are finding that when bank financing isn't forthcoming, the tax collector can be a bank of last resort. CFOs are improving their companies' bottom lines by identifying overlooked tax credits and deductions, accelerating expenses or deductions and deferring taxable income. To get immediate cash, they're also requesting quick refunds and skimping on Q4 quarterly estimated tax payments.

Especially for a business that is bleeding cash, getting a quickie refund could be the difference between keeping your head above water and going under," says Scott Estill, a former IRS senior trial attorney and author of *Tax This!: An Insiders Guide to Standing Up to the IRS*.

Tips for Getting a Tax Payout

For mid-sized companies, taxes are a tightrope walk. "It's a tricky balance," says Jeff Sklar, a CPA and managing partner of Sklar, Heyman & Co. LLP, a Bellmore, New York, accounting firm. "The company is always looking to reduce its tax liability but have a strong enough financial statement so banks and lenders say, 'That's looking good.'"

While CPAs generally advise companies to start tax planning on the first day of a new tax year, there's still time later in the year to make smart tax moves to boost cash. Here are some of them:

Look for tax credits. There's never been a better time for mid-sized companies to claim tax credits. Federal and state governments eager to boost the economy are offering a number of perks. Unlike deductions, which reduce taxable income so companies save up to 35 cents on the dollar, tax credits offer a dollar-for-dollar benefit. "Tax credits are like a gift certificate for your taxes," says Brandon Edwards, president of The Tax Credit Co. "It's as good as money." Here are some to consider:

Hiring. The Hiring Incentives to Restore Employment (HIRE) Act passed in March 2010 rewards companies that hire unemployed or underemployed workers between Feb. 3, 2010 and Jan. 1, 2011. Qualifying companies get a 6.2 percent payroll tax incentive (by waiving the employer's share of Social Security tax on those workers) and a \$1,000 tax credit for each worker on their 2011 returns. The Work Opportunity Tax Credit (WOTC) was updated to give businesses an average tax credit of \$2,400 per worker – up to \$9,000 in some cases – for hiring qualified unemployed veterans, people on public assistance and so-called "disconnected youth," 16 to 24-year-olds not enrolled in school who lack basic employment skills.

Enterprise zones. Some states have created enterprise zones to encourage hiring and investment in economically disadvantaged areas. Companies that move to or operate in these zones can get tax credits of up to \$6 per hour for each qualified employee they hire and up to 9.75 percent credit on sales and use taxes on qualified property.

Health care. The 2010 health reform law includes a tax credit for small businesses that provide employee health insurance. To qualify, firms must have fewer than 25 full-time workers, pay annual wages below \$50,000 and cover 50 percent of healthcare costs. The payoff: a credit for 35 percent of premiums that rises to 50 percent in 2014.

Get a quickie refund on overpayments. The IRS allows companies that overpaid estimated taxes to apply for a quick refund. To qualify, an overpayment should be at least 10 percent of a company's expected tax liability and over \$500, according to the IRS. To apply, file Form 4466 before your annual return and prior to March 16. "You should receive it within 45 to 60 days, which in IRS terms is like running the 100-yard dash," says Estill, the tax book author.

Change building-cost depreciation. Under federal tax rules, companies can depreciate a new building such as a warehouse or factory over 39 years. But a number of accounting firms now recommend that clients do a cost segregation study to identify non-permanent property that can be depreciated more quickly, including lighting and air conditioning or heating units. "It can be a pretty elaborate undertaking, but it results in big savings," says Glenn Friedman, managing partner of Metis Group LLC, a New York-based CPA firm. Cost segregation also can be applied retroactively to a company's taxes to claim depreciation for previous years.

Don't overlook small deductions. Section 199 of the federal tax code offers a deduction on net income earned from qualified goods made in the United States, including computer software and films. Over the past five years, the deduction has tripled, to 9 percent. "Some companies didn't want to spend the time and effort to carefully compute the deduction at the 3 percent rate," says Joe Middleton, tax partner at BDO, a national tax and consulting service. "Now that the full 9 percent rate has phased in, it may benefit companies to commit the time and effort to accurately determine this deduction."

Skimp on Q4 estimated taxes. Most companies base quarterly estimated tax payments on the previous year's numbers. As the Q4 deadline approaches – for most businesses it's Jan. 15, 2011 – CFOs may want to consider reducing their fourth-quarter payment, especially if business is off compared with last year. Take care not to underpay and wind up getting slapped with penalties. "Cutting your last estimated tax payment is risky only if you end up being wrong," Estill says. "I recommend going in that direction if your numbers will be pretty accurate."

Keep Tabs on Tax Code Changes. Practically every year, lawmakers rewrite rules covering what companies can deduct, how quickly they can depreciate assets and whether losses can be carried back to prior years. Congress has renewed the R&D tax credit for 30 years, sometimes retroactively. So stay tuned to Capitol Hill.

Such vigilance paid off for WET Design, a \$40 million Los Angeles designer of water installations such as the famous dancing fountains at the Bellagio Las Vegas hotel. In 2009, consultants hired to conduct a thorough tax review found the company qualified for multiple tax credits. By applying for R&D credits and credits for hiring 50 workers in one of California's enterprise zones, WET Designs ended up reducing its tax bill by a six-figure amount.

"We're reinvesting it in the business," WET Design CFO Rex Uber says. "It allows us to save more money instead of giving it to the government so that we can spend it on growing the business and hiring more people."