

Planning Now Means Savings Later

By Alan Abraham, CPA and Kevin Deardorff, CPA

You may want to increase your 2009 loss-year through some tax planning in order to increase the amount of taxes you recoup with the carry-back claim refund. Some year-end planning ideas to increase the loss are:

- Sell slow moving inventory at a loss
- If you are on the completed-contract method of accounting, push to complete loss jobs by year-end
- If on the accrual method of accounting, incur and accrue expenses (which you would have anyway in the following year)
- If on the cash method of accounting, pay expenses in advance (which you would have anyway in the following year)
- Elect to take "Bonus Depreciation" on new qualified assets

Income and/or loss recognition for jobs at year-end requires careful analysis of each job nearing completion. It is important to discuss the status of these contracts with your accountant before year-end.

A tax strategy and planning idea that may also work involves converting your 401(k) or IRA into a Roth 401(k) or Roth IRA. This could be the perfect time to convert your retirement savings account and plan for the future. We have seen historically low tax rates for some time now and all indicators point towards tax rate increases in the future. A conversion during low tax rate times is worth considering.

The converted balance is taxed now, but all gains and future withdrawals could be tax-free if you wait at least 5 years and you've reached age 59 1/2. Most of us have experienced a decline in our retirement accounts over the past year or so. This also reduces the balance that would be taxed on the conversion. If you experience a loss during the year and are not in need of carrying back those losses, you could offset the taxable IRA conversion against those losses.

These are a few planning ideas that many people need to think about while approaching the year end. Our firm would be happy to discuss your tax situation to see if these planning strategies are right for you.

Some additional benefits the Roth IRA offers that are not available with a traditional IRA are:

- Tax-free growth with no Required Minimum Distributions
- You can continue to contribute even after age 70 1/2, as long as you have earned income
- Your beneficiaries or heirs will receive the total account balance without having to pay income taxes or penalties

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