

With 2006 behind us, it's time to think ahead for 2007

Once your tax return is completed for this year, it's the perfect time to get the right plan in place for the year ahead. And since many small business owners report income from their business on their personal tax returns, this means doing some business and personal planning at the same time. Here are some tips for a smooth 2007 and an even better tax season next year:

Review 2006 earnings—Once tax season is over, set up an appointment with your accountant to review what you learned from last year. Where could you have been more proactive in your tax planning? How could you better manage your receivables? Your expenses? Your cash flow? Use these insights to improve your money management skills going forward.

Set up quarterly checkpoints—For many small business owners, tax time is the only time they see their accountants. But smart business owners set up brief meetings semiannually (or even quarterly) to review progress and ensure they are on track in achieving their goals. Accountants can quickly review financial statements, ask questions and look for ways to help you better plan for next year's taxes well in advance so that you can eliminate surprises.

Establish financial goals—Small business owners need to set goals for their business revenue and personal income. This is important. First, it gives you something very concrete to work toward each quarter. And it lets you know how to better grow your business. From a personal standpoint, it ensures that you don't put yourself last—a common small business owner mis-

take. How much do you want to make this year? Can you afford to give yourself a raise? Are you adequately preparing for retirement? Setting aside money in retirement accounts can help reduce your taxes.

Create a cash flow—One of the most important reports you can have your bookkeeper create and your accountant review is a cash flow statement. This report lets you see the rate at which money is flowing in—and out—of your business. If you don't have one of these reports for your business, put this at the top of your to-do list.

Record your car mileage—Here's where small things can make a big difference. Keep a log of the miles you drive for business. You may be able to deduct up to 48.5 cents per mile in 2007. It all adds up.

Plot your progress—Don't just look at your financial statements on occasion. Compare them—to the previous month, the previous quarter, the same time last year. Just as important to where you stand today is the progress you're making over time. What's changed? What's better? What's making a difference?

Don't over manage your business—Some business owners spend a little too much time evaluating their business when they should be spending more time building it. Yes, carefully review your books, but your #1 goal should be generating revenue.

Tax Quiz Question

Sally's uncle died and she has been named executor of the estate. She will receive \$2,200 for this duty. What are the tax implications of her receiving this payment?

The Answer

The amount she receives for fulfilling her duty as executor of her uncle's estate is includible in gross income on the other income line of her Form 1040 - subject to income tax. However, she is not required to pay self-employment tax on the amount received because she is not in the business of managing decedents' estates.

Tax Calendar for April

Business

4/16	Monthly Payroll Taxes Due
4/17	1065 Partnership Tax Return
4/20	Monthly Sales Tax Due
4/30	Payroll Tax Returns

Individual

4/17	1040 Tax Return
	1040ES First Quarter

Tax Gap Solutions Burden Small Businesses

Accounting WEB - March 19, 2007 - Proposals recently issued by the Treasury Department to close the tax gap, which focus on small businesses and the self-employed, would generate only \$2.9 billion in revenue, one percent of the estimated total, while they would increase the paperwork requirements on small businesses, and even turn them into tax collectors, bizjournals.com reports.

"That's 1 cent on the dollar," **Senator Max Baucus**, (D – Mont.) told Treasury Secretary Henry Paulson. "We need a lot more from you." Baucus wants the Internal Revenue Service (IRS) to recover around \$30 billion a year, MarketWatch.com reports.

The Treasury Department has targeted small business because underreported business income and unpaid self-employment taxes account for more than half of the tax gap.

A key element of the government's strategy is to increase third party reporting to the IRS which comes from additional paperwork to be done by small businesses.

The proposals would require:

- Businesses to file Form 1099 for payments of \$600 or more to corporations that provide services,
- Businesses to check the Taxpayer Identification Number of their contractors with the IRS and withhold taxes if the TIN is not verifiable,
- Credit card companies to report their annual payments to small businesses and sole proprietors.

Macey Davis, tax counsel with the National Federation of Independent Business, told officials at a meeting at IRS headquarters, according to MarketWatch.com, that the current tax system already forces small businesses to spend money on

compliance rather than on growth and warned that added burdens could alienate them.

"We are biting the hands that feed us," she said.

The proposal requiring credit card companies to report payments made to small businesses would allow the IRS to compare the payments with self-reported revenues on tax returns. Small business organizations worry that this proposal would result in fee increases from the credit card companies.

Some analysts believe audits are the best way to close the gap, USA Today reports, and Schedule C filers are more likely to be audited than individuals who do not file Schedule C. "Chances are, you'll be audited if you're in business long enough," Frederick Daly, a tax attorney, told USA Today.

IRS Taxpayer Advocate Nina Olson believes audits can be more effective if they're targeted at specific groups such as self employed workers who are paid in cash, USA Today said.

If the IRS audited a food vendor in New York, he would probably talk about it, she said. "They'd get nervous and start reporting more of their income. That's more effective than "scattershot audits."

Congress rebuked the IRS in the late 1990s over overzealous audits, and the number of IRS audits declined. In 2002 the Service reinstated the practice of random audits, and last year the IRS conducted 1.2 million audits, the highest number since 1998, Forbes.com reports.

Stop Theft Inside Your Business

A few controls might help to prevent theft and be more vigilant:

- Conduct background checks on prospective personnel
- Send bank and credit card statements straight to the top
- Review documentation for all check requests
- Monitor cash receipts and deposits independently of employees recording them
- Reconcile accounts receivable and accounts payable monthly
- Check out first time vendors
- Restrict authorization and access to finances
- Make employees take vacations
- Watch for red flags in employee behaviors

Motivational Quote

"If opportunity doesn't knock
build a door."

Milton Berle