

Financial Matters To Attend To Before The End Of The Year

A few simple decisions can help you make more money in your shoeing business, without even picking up a foot

By Esco Buff, CF, Ph.D.

Before you do that last shoeing job of the year, there are several financial matters that you should consider in order to save yourself money and maximize your tax benefits.

Year-end tax planning is as much about 2011 as it is about 2010. Often, there's a real opportunity for year-end tax savings if you can predict that you'll be paying taxes at a lower rate in one year than in the other.

Here are some of the top business and tax planning ideas for farriers:

- 1.** If you wish to defer income until next year and bill for your service, send out invoices a little later so as to receive payment in the following year. Postponing income can be desirable for farriers who anticipate being in a lower tax bracket next year due to changed financial circumstances. However, if your customer offers payment before the year ends, you cannot decline to accept it, under the law.
- 2.** Consider extending your subscriptions to professional journals (like the *American Farriers Journal*), paying professional dues (like those of your local farrier association), enrolling ahead of time for clinics or farrier-related courses, etc., if you need to increase your expenses for the current year.
- 3.** Make charitable contributions to tax-exempt organizations. You can charge last-minute donations in the

current year to a credit card and take the deduction, even if you pay the bill next year. If you make the donation by check and the charity doesn't receive the money until next year, you can still take the deduction for this year if you mailed the check by Dec. 31. Charitable donations made by sole proprietors or by S corporations (if that's how you've set up your business) don't apply to the business. In these cases, the deductions are passed through to the individual owners and reported as an itemized deduction

Self-employed taxpayers are allowed to deduct 100% of health insurance costs...

on the individual's tax return.

- 4.** Consider making last-minute equipment purchases to exercise expensing and depreciation bonuses. Due to frequent changes to the tax laws, find out what the current deduction limits are by visiting the Internal Revenue Service website.
- 5.** Consider using a credit card to prepay expenses so you can generate more deductions for this year.
- 6.** Use "bunching strategies" to help you exceed the deduction threshold for the miscellaneous itemized deductions, medical expenses and



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other itemized deductions categories. Examine these areas and see if an extra trip to the eye doctor might help you exceed the medical expenses threshold, or a subscription renewal may put you over the top for miscellaneous items.

7. Current inventory can be used for tax deductions. Conduct an inventory count to maximize tax benefits.

8. The tax rules have been gradually getting better every year for the self-employed when it comes to deducting the cost of health-insurance coverage. Self-employed taxpayers are currently allowed to deduct 100% of health insurance costs. That means if self-employed individuals are paying for themselves and their families, they can get a dollar-for-dollar deduction. However, it would be wise to make plans to handle any expected premium increases for the following year.

9. Being self-employed, it is also wise to set up a self-employed retirement plan (SEP-IRA). Typically, you can put 25% of your earnings into a SEP-IRA. The IRS provides incentives for small business owners to establish retirement plans. One bonus lets small business owner's claim up to \$500 per year as a tax credit for the first 3 years of the plan to cover administrative costs.

10. In the upcoming year there will be a phase-out of itemized deductions and exemption amounts for higher-income individuals. Knowing your exact tax bracket will be even more important in the upcoming year.

Currently, there are six marginal federal income tax brackets: 10%, 15%, 25%, 28%, 33% and 35%. These brackets expire at the end of 2010. As things stand now, in 2011 the 10% bracket disappears, and the remaining brackets return to their pre-2001 levels: 15%, 28%, 31%, 36% and 39.6%. But keep an eye on events in Washington, which could affect this situation.

11. It is so important to keep accurate accounting books throughout the year. Many farriers run their businesses from their checkbooks. The balance doesn't necessarily reflect what the tax liability is going to be. If you do not keep accurate and complete records, you may end up paying more taxes than are due because of lack of evidence of tax-deductible expendi-

ture and/or inaccurate sales records. Accurate records will also reduce the time needed to complete your return as well as your tax preparer's bill.

12. Small business owners should seek expert assistance from a competent tax professional for a thorough analysis of their business position before implementing tax-related decisions. The importance of having a certified tax preparer cannot be overstated.

It is imperative to review all of these items in light of your overall planning and tax situation. There are many rules surrounding these suggestions, so plan carefully before taking action. Please consult with your financial and/or tax advisor before making changes. **Q**

If you have a question or topic you'd like addressed in this column, mail it to American Farriers Journal Managing Editor Pat Tearney, P.O. Box 624, Brookfield, WI 53008-0624 or e-mail it to ptearney@lesspub.com, with Hoof-Care Bottom Line in the subject space.

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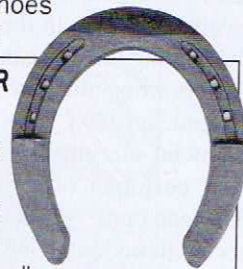
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