

CLIENT'S tax & financial UPDATE

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A tax, business, and financial planning newsletter for our clients and friends

Improve Your Cash Flow By Speeding Up Your Billing

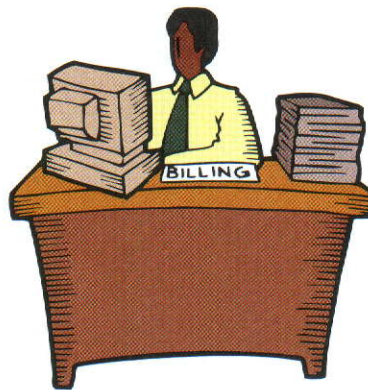
Cash – the money that flows through a business – is the lifeblood of every company. The skill with which a business owner manages this cash is critical to the success of the company.

Too often, inefficient billing systems delay the flow of cash. It is obvious that the sooner a company bills its customers, the sooner it will get paid. Likewise, the longer a company delays invoicing, the longer it will wait for its payment.

Some business executives tend to take their billing procedures for granted, but if you will review them periodically, you might be able to speed them up. Remember, the faster you bill, the sooner you'll get paid.

Here are a few ideas to think about:

- Prepare invoices before you ship the goods. Some companies don't prepare invoices until after they have shipped orders. In many cases, this causes an unnecessary delay. If your company is in a position to ship most of its orders promptly, you should consider preparing invoices before shipment is made.



In many companies, this is frequently the first step taken when an order is received. It is usually done by preparing the invoice and the packing slip on a single set of forms which, in addition to speeding up billing, also saves work.

- Invoice more frequently. Many companies treat invoicing as a time consuming and burdensome task and delay their invoicing to the end or beginning of the month. Some delay their invoicing until they can build up a quantity of invoices to justify the time needed to invoice. The time and effort needed for invoicing can be greatly reduced by the use of computerized billing systems. The

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taxPOINTS

Loophole: When you swap like-kind property, you can defer the entire gain if you properly structure the transaction. *To do so...*

- You must reinvest into the new property the entire equity received from the sale, and...
- Your debt on the new property must be equal to or greater than that on the old property. **Note:** If the values of the properties are unequal, any extra cash you receive may be taxable, and any amount you pay can be added to the basis of the replacement property.

Bad debts. If your business uses accrual accounting, examine its receivables to find any that have become uncollectible and deduct them from income. The business will accrue them in taxable income – and pay tax on income it doesn't receive – if it fails to deduct them. **Note:** Bad debts must be specifically identified, not estimated.

Loophole: Charitable contributions. Donate appreciated securities instead of cash. Giving cash is an expensive way to make a donation because you're giving money that has already been taxed. **Better:** Give securities that have gone up in value since you bought them. You get a tax deduction for the full market value of the securities and you avoid capital gains tax on the securities' appreciation. **Caution:** You must have owned the appreciated assets for more than 12 months to get the full write-off. Otherwise, your deduction will be limited to your basis (tax cost) in the securities.



Tax Breaks for Supporting Your Parents

If you contribute to the support of your parents, you may qualify for several tax breaks. You may be able to claim a medical expense deduction if you paid medical expenses for your parents and use those same medical expense payments to determine whether you can claim a parent as a dependency deduction. In addition, if you are single, you may be entitled to head-of-household tax status and pay tax at a lower tax rate.

To qualify for these tax breaks, you must satisfy certain IRS rules. To claim a parent as a dependent, you must contribute more than half of the total spent for the parent's support. The parent's gross income for the calendar year must be less than the exemption amount for the year (\$3,800 for 2012).

Furthermore, support received by one parent from more than one source is considered to be used equally for the support of both parents. You can, however, allocate your support contribution to one parent by making a notation to that effect on your check. This can allow you to take a dependency deduction for at least one parent.

If you pay for more than half of a parent's support, you can deduct the medical expenses you paid for that parent subject to your own 7.5% adjusted gross income limitation. In addition, you can include payments for a parent's medical expenses as support payments to determine whether you have furnished more than half of the parent's support. The best way to handle a parent's medical expenses is to pay them directly to the provider rather than giving the money to the parent.

If you are single, supporting your parents may also qualify you to file as a head-of-household, which means a lower tax rate and a higher standard deduction. To get this tax benefit, you must maintain a separate household which is the principal residence of your parents and at least one of your parents must be your dependent. To show that you furnish more than half of the support of one or both parents, make a notation on your support checks to indicate that they are for the support of one particular parent.

Tax Tip: Auto Donations

If you give your car or boat to charity and the charity or its agent sells it, the value of your donation for tax purposes is limited to the sales proceeds. This rule doesn't apply if the charity uses or improves the vehicle in a substantial way before selling it.

Example: Substantial use is a charity delivering meals to homebound individuals that drives the car 12,000 miles before selling it.

In such situations, donors can rely on the blue book value of the car or other fair market values. Charities must report sales proceeds to you and to the IRS.

Strategy: To maximize your deduction, contribute your car to an organization that intends to use it in its charitable activities – ask the charity about its intentions.