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CLIENT'S TAX & FINANCIAL UPDATE

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Tax Points

HOW TO CUT OVERHEAD COSTS FOR A BETTER BOTTOM LINE Part One

Inflated overhead costs are a progressive disease in many businesses. Increases in one small overhead item at a time can add up until they finally gobble up a sizeable portion of profits and create serious cash flow problems.

Preventative medicine is the best way to avoid these problems. A good record keeping system will let you examine overhead costs every month to make sure they remain relatively constant. Payroll and expense accounts, telephone costs, and equipment and supply costs should receive special attention.

But the real key to keeping overhead down is to see that each area that generates overhead costs is under the direction of one individual. When expenses appear to be getting out of hand, you can then meet with the person in charge of a problem area to discuss why costs are climbing and how changes can be made to bring them under control.

Purchasing Practices

The cornerstone of improved net income is to minimize the cost of goods sold to increase gross margin. To achieve this

(continued page 4)

- **How to obtain larger pension benefits.** Have your company set up either a Keogh plan, 401(k) plan, or Simplified Employee Pension (SEP) plan. The amounts contributed to any of these plans can exceed the amount employees can put into IRAs by a great deal. For Keogh and 401(k) plans, contributions and deductions can go as high as \$44,000. For SEP plans, they can also go as high as \$44,000 (not to exceed 25% of wages). There are also Super Keoghs - these are known as a defined

(continued page 2)

Inside this issue

- How to cut overhead cost for a better bottom line..... 1
- Tax points..... 1
- Deducting your spouse's travel costs..... 2
- Boost employee morale during cutbacks 2
- Selling real estate: swap and pay no taxes 3

TAX POINTS

(from page 1)

benefit Keogh. Contributions are determined actuarially and can be much higher than the amount contributed to a regular Keogh.

- **Part-time businesses should have their own bank accounts and bookkeeping records.** The better your records, the less chance you have that the IRS will disallow your business deductions.
- **Big tax loophole:** When you die you do not need any records to support the cost basis in your assets. The assets, for tax purposes, are "stepped up" to market value on the date of your death or the alternate valuation date, usually six months later.
- **Loophole:** Obtain an interest free loan from the IRS by paying too little in estimated tax payments during the year and then making up the difference by having more withheld from your paycheck at the end of the year. The IRS treats withheld taxes as being taken out evenly throughout the year.
- **Tax loophole:** Shift income to low tax bracket family members by structuring your business as a pass-through entity; for example, an S corporation, partnership, or limited liability company.



Boost Employee Morale During Cutbacks

When companies go through cost-cutting periods, they often focus all their attention on profitability and tend to ignore employee morale. In the face of cutbacks - which sometimes include layoffs - employee productivity suffers. Without employee understanding and cooperation, sales and profits may fall more rapidly than costs. Here's a checklist to follow to keep worker morale high.

- **Show employees the benefits they'll get.** If a little belt-tightening now means better job security later, make sure employees know it.
- **Explain why cutbacks are necessary.** When employees understand *why* cost-cutting is needed, they are much more likely to support cutbacks.
- **Ask for employee cost-reduction ideas.** When employees are actively involved in the decision-making process, they are more likely to understand and accept changes.
- **Tell employees when the plan is working.** Solid evidence that cost-cutting efforts are paying off will motivate continued worker cooperation.
- **Practice what you preach.** Be prepared to give up management perks and other privileges.

Deducting Your Spouse's Travel Costs

If there is a legitimate business reason why you take your spouse with you on a business trip, you can deduct his or her travel costs. In addition, some of your spouse's travel costs may be deductible even if there is no business reason for the spouse's travel. Some examples:

- **Hotels.** If the rate for a single room is \$140 and the rate for a double room is \$180, you can deduct \$140 of the \$180 of the double room rate.
- **Entertainment.** If you and your spouse entertain a customer, 50% of the cost is deductible.
- **Travel.** If the cost of your single regular fare is \$600 and you are able to purchase special tickets for \$400 each for a couple, you can deduct the regular \$600 fare if you take your spouse.
- **Meals.** As is true of all business meals, 50% of the cost is deductible if your spouse and you have a meeting with a customer and business is discussed.