

# CLIENT'S TAX AND FINANCIAL UPDATE

A Bimonthly Tax, Business, and Financial Planning Newsletter for our Clients and Friends

## IMPROVE YOUR CASH FLOW BY SPEEDING UP YOUR BILLING

**C**ash – 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.
- Invoice more frequently. Many companies treat invoicing as a time consum-

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.

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## Tax Points

- **Give your kids a job.** A child who is claimed as a dependent of their parent can earn up to \$5,150 in 2006 without owing any federal income tax. **Benefits:** The business deducts the wage amount. If an additional \$4,000 of wages is paid to your child, it could be contributed into an IRA and not be taxed – with a total tax free wage of \$9,150. **Loophole:** If your business is unincorporated, there are no Social Security taxes on wages paid to a child who is under the age of 18.

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## TAX POINTS (from page 1)

- **Lower your Social Security taxes.** If both spouses work in a business and one spouse has a high-paying job, that spouse should be listed as the sole owner of the business. \$94,200 is the maximum amount of wages for 2006 that Social Security tax is paid on. **Benefit:** If one spouse pays the maximum Social Security tax on their wage from his/her job, then the income paid from the business to that spouse will not be subject to the Social Security portion of self-employment tax.
- **Adoption tax loophole.** The IRS allows you to take a tax credit for adoption expenses you may have paid up to a maximum of \$10,960. This credit can be applied directly towards your tax. **Limit:** The credit is phased out for taxpayers who have modified adjusted gross income of between \$164,410 to \$204,410.
- **Home office expense deduction rules** have been expanded. You can now take a home office deduction if your home is used for administrative or management activities, and this is the only location where these tasks are performed.
- **Added benefits of a Roth IRA.** You can continue to make your IRA contributions after age 70½ if you have earned income and there is no requirement that you must take distributions at age 70½.



# INSURANCE AS AN INVESTMENT: FEATURES AND DRAWBACKS

Insurance companies offer a wide variety of investment-oriented products. The following summary will give you a general picture of the most popular of these products. Keep in mind that insurance investment vehicles can be quite complex and it's wise to seek out a knowledgeable agent who can help you pick the investment that's best for you.

## Single premium whole life insurance

As its name implies, you buy this policy with a single lump sum payment. The amount of life insurance you get is a multiple of that payment. Your principal is guaranteed, but you cannot borrow against the policy's cash value tax-free if you purchased the insurance after June, 1988. Single premium whole life should be considered only as a long-term investment.

## Single premium variable life insurance

This insurance is somewhat similar to single-premium whole life, except that because you can choose to invest in any of several different mutual funds, your principal is not guaranteed. The best mutual funds to invest in are those with long term growth potential.

## Universal life insurance

Universal life insurance guarantees your principal, but the interest you earn fluctuates and is determined by the insurance company. You pay periodic premiums which can be fixed or flexible. Universal life insurance is a good way to establish a regular investment program and is a good source of emergency funds because of its loan features.

## Universal variable life insurance

Universal variable life is similar to universal life with two important exceptions: you choose where your money is invested, and for that reason, your principal is *not* guaranteed. Expenses are often high and the best use of universal variable life is as a long term investment to accumulate wealth for your heirs.

## Fixed annuities

Fixed annuities do not provide life insurance coverage, but their cash value build-up is tax deferred. You can pay premiums periodically or in a lump sum and your principal is guaranteed. A fixed annuity is a good retirement supplement if you can no longer make tax deductible contributions to a qualified retirement plan such as an IRA or a Keogh Plan. Distributions made before you reach age 59½ are subject to a 10% penalty.

## Variable annuities

Variable annuities have the same features as fixed annuities except that you can choose to invest in any of several mutual funds. Because expenses are relatively high, a variable annuity is usually best for an active knowledgeable investor.

