



1422 Edinger Avenue, Suite 120 • Tustin, CA 92780

Tel: (714) 258-8990 Fax: (714) 258-8994

www.dalmaciocpa.com

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

Better Ways to Control Accounts Receivable

With an uncertain economy and unpredictable interest rates ahead, improving a company's cash position should be a major priority for any business. In most cases, the answer to this challenge is better control of accounts receivable.

Tuning up your collection system

Too often, companies allow their receivables to age to a point where the business is strapped for cash. It's not uncommon for four or five months to pass before management takes action to collect past due accounts, usually because the company doesn't have a clear collection policy.



Effective receivable control is based on a regular review of the company's receivables. Ninety days from the date a receivable becomes past due is the point at which your company should decide whether it wants to continue to do business with a late-paying customer.

If a customer is important, a mutually satisfactory schedule for payment of past due balances should be set up together with an understanding that covers payment for future purchases. It's important to resolve both of these issues at the same time to avoid future problems while the customer is paying off past due amounts.

If you can't work out a satisfactory schedule for payment of the past due balance within a reasonable amount of time, or if it becomes apparent that the customer is in real financial trouble, it's time to bite the bullet and turn the matter over to a collection agency.

An ounce of prevention...

Although there's no guarantee that better control over accounts receivable will result in the timely payment of all receivables, there are several other steps that a company can take to reduce the age of its accounts receivable.

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taxPOINTS

TAX DEDUCTIONS FOR BUSINESS

Deduct home-office expenses for part of a room. A Tax Court case says that if you use a portion of a room as your principal place of business, you can deduct the expenses allocated to that portion.

Example: A music teacher could deduct expenses for the part of his bedroom in which he gave lessons.

Claim an additional deduction for the cost of laundry, cleaning, lodging taxes, and telephone calls while on business trips. If you substantiate your business travel using the government's per diem allowance, you can claim both the per diem allowance and a separate deduction for these items.

Caution: Be sure to keep receipts and other records to back up your deduction.

Machinery and equipment. It's best to elect to expense equipment in the year it is placed in service rather than depreciating it over several years (usually five or seven years, depending on the type of equipment). For 2009, the dollar limit on expensing is \$250,000.

Caution: Don't make the election to expense if you're not making a profit – the deduction will be worth nothing to you. Instead, depreciate the equipment over its recovery period. In the future, when you're profitable, the depreciation deductions will be more valuable.

The Unbreakable Rules of Successful Money Management

There's no real secret to managing your money wisely. With a little discipline, you can protect your money and maximize its growth by sticking to a few basic investment principles. Here are the most important.

Never invest in anything you don't understand. You wouldn't buy a book written in a strange language and you shouldn't put your money in anything you don't understand completely. If you don't know all the details about what your money is buying, look elsewhere.

Don't make snap judgements. Just because your brother-in-law made a fast profit on a new high-tech stock doesn't mean it's for you. Your situation and your risk tolerance are unique. Think before you invest.

Diversify. It's a common money management mistake to put all your funds in one place. You can substantially reduce your risk and improve your profit potential by dividing your money among fixed income investments, equities, and cash. Always diversify, no matter how much money you have to invest.

Be patient. Don't buy stocks or mutual funds and expect big profits in a few months. It often takes years for an equity investment to pay off. Buying and selling stocks over the short term is almost always bad money management.

Don't invest just to save taxes. You might save taxes but wind up losing money. Tax-free investments invariably pay less than other investments. Consider your total after-tax return before you invest.



When you make a profit, take it. If you buy a stock, pick a price at which you'll make a satisfactory profit. When the stock reaches that price, sell. Remember, stocks go down as well as up and there's no guarantee that a rising stock will continue to go up.

Ignore hot tips. They're almost always wrong no matter how convincing or well-meaning your source is.

Always keep track of your investments. Monitor your investments at least once a month. It only takes a few minutes to look in the newspaper or call your broker. Unpleasant surprises should be and can be avoided.

Read the fine print. CDs carry a substantial penalty for early withdrawal. High money market interest rates may apply only for the first few months your money is invested. And there's a big difference between interest rates and effective annual yield.

Five Exemptions from Social Security Taxes

Although Social Security taxes keep on going up, there are many payments that are not subject to Social Security taxes. Among them:

- 1 Payments that are not compensation for services such as rents, dividends, interest, inheritances, and gifts.
- 2 Company fringe benefit payments such as premiums for health and accident insurance and certain qualified educational benefits.
- 3 Wages paid to your under-age-18 children if you are self employed. (Wages paid by a corporation are subject to Social Security taxes.)
- 4 The cash value of meals and lodging which is made by an employer for the employer's convenience.
- 5 Company loans to a stockholder or an employee when the loan is fully documented to show that it is a legitimate loan which will be repaid.

Plan for Tax Savings When You Set Up a Family Business

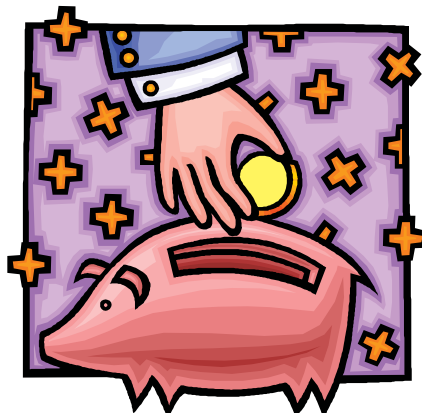
Family-owned businesses can offer an opportunity for considerable tax savings. Not only can you opt for a corporation, a proprietorship, or a partnership, but you can also combine the various forms of ownership to your advantage.

If you organize the business as a partnership or Subchapter S corporation, for instance, early business losses can be passed through to owners in high tax brackets. When the business begins to show a profit, title or stock can be transferred to younger family members who are in lower tax brackets.

If the business is organized as a corporation, its real estate, machinery, or equipment can be owned by an individual and leased to the company. Rental income will pass directly to the owners without being subject to corporate tax. Ownership of these major

assets can also be placed in trust for the benefit of the owners' children to take advantage of income splitting.

Obviously, the business structure that most benefits one family will not necessarily suit another. In addition, the tax law restricts the deductibility of certain family-owned business losses. So be sure to consult with your tax professional before you choose a structure for a family business.



More Tax Tips

Save Estate Taxes with Year-End Gifts.

If your assets are substantial, making year-end gifts to your children can reduce the value of your taxable estate. Here are some guidelines for a gift-giving program.

- There are maximum annual amounts which are free from the federal gift tax. For unmarried donors, the upper figure is \$13,000 annually. Married donors can make an annual combined gift of up to \$26,000.
- Gifts that exceed the maximum limit, but are made as direct payment for tuition or medical bills, can be tax-free.
- If you prefer not to make large gifts to younger children, there are several alternatives available, including certain trusts and custodial accounts. Consult with your accountant to find out which is best for you.

When It Pays To Borrow For Estimated Tax Payments.

If you file estimated tax returns, you may occasionally find yourself short of the cash needed to make a payment and face an IRS penalty for late payment.

Rather than missing a payment, consider borrowing enough to make the payment. The interest you'll pay on the money you borrow will probably be less than the penalty for not meeting the estimated tax requirement. And some part of the loan interest may be deductible as well.

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Accounts Receivable

- **Credit checking.** It's surprising how many businesses will accept orders from new customers without doing a thorough credit check. It's the obvious way to head off future problems. And it's just as important to make occasional credit checks for large existing customers to make sure that their credit ratings aren't slipping.
- **Applications for credit.** A credit application is another basic technique to reduce collection problems. At the least, a company should know the names of its customers' owners, banks, and major suppliers. Not only

is this information useful for immediate credit decisions, but it can be essential if a collection problem arises in the future.

- **Customer communications.** There's no better way to assure improved collections than to make certain that a new customer understands that your company must be paid in a timely manner. If a customer doesn't get a clear message to that effect, you can give the impression that prompt payment isn't really important to your company.

It's just as critical to keep in touch with new customers to find out if they are satisfied with your product. Make every effort to do this before payment is due, to avoid future excuses for delayed pay-

ments because of problems you didn't know about.

Invoice discounts and late payment charges

Offering customers a discount for prompt payment usually won't speed up your collections. In fact, it can often backfire because customers take the discount but don't fulfill the terms. It's much better to bill a net amount and clearly indicate terms of payment on the invoice.

Some companies charge a penalty for past due payments, but unless a customer is made aware of this in advance, the customer is not legally obligated to pay late charges. It's best to stick with conventional invoicing and tighten up your internal controls over receivables.

The Art of Negotiation

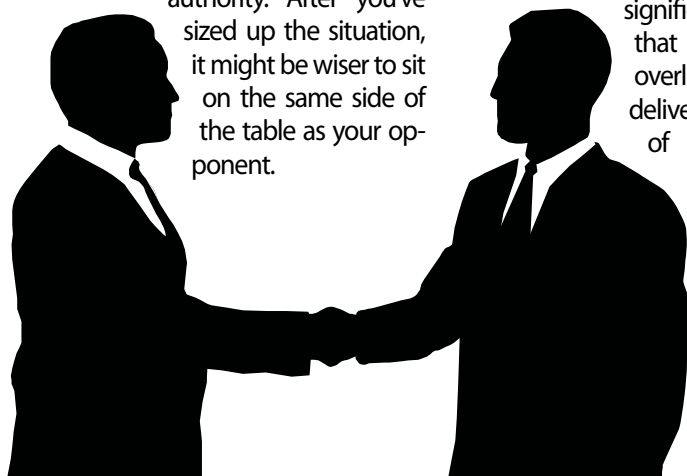
When you sit down at a negotiating table, the seat you choose can have a real effect on your negotiations. The seat at the head of the table is considered the "power seat" and that's where you should sit if you want to appear to be in command of the discussions.

But think twice before you do it, because some people resent the presumption of authority. After you've sized up the situation, it might be wiser to sit on the same side of the table as your opponent.

This can lessen the adversary aspect of your negotiations and make others feel that you'll be friendly and cooperative.

Make sure price comparisons are fair. When a prospective customer tells you that your price isn't competitive, don't offer a better price until you compare all the details of your offer with the details of what your competitor is offering.

You may be able to point out significant differences that the customer has overlooked such as delivery charges, terms of payment, product specifications, and return privileges. Best way to do it: ask the customer.



How to Get Tax-Free Income From Your Vacation Home

If you rent your vacation residence for less than fifteen days during a year, you can't take a deduction for rental use expenses such as maintenance and depreciation. However, the rental income you receive doesn't have to be included in your gross income.

Taxpayers who live in homes where there is a strong rental demand during a short period of the year can receive high rents for these brief periods and not pay taxes on the rental income.

