Anchin Food & Beverage Industry News

Information and Insights for Food and Beverage Industry Executives
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Year-end Tax Tips, Planning Can Mean Money in Your Pocket

By Greg Wank, CPA

The days are shorter; the temperatures are cooler; the Yankees had a short post-season. All the signs are pointing to year-end, which means you have until December 31 to take proactive steps to reduce your tax expenditures for the 2007 calendar year. Your certified public accountant should be in touch with you shortly to start year-end tax planning; if this is not a routine annual occurrence, you should contact an Anchin partner to help you start this process.

Three major tax bills were passed in 2006, affecting a wide variety of tax planning areas, such as investing, retirement planning, charitable giving, college funding, business tax relief, health care saving funding, and the alternative minimum tax (AMT). Here is a very brief look at these three bills:

- **The Small Business and Work Opportunity Tax Act (SBWOTA)** included breaks for small to mid-sized food companies to help offset the minimum hourly wage increase principally by extending the increased initial year depreciation expensing election under Section 179 through 2010 and increases the expensing limit to $125,000. This means that you may be eligible for an immediate deduction for newly purchased trucks, machinery and furniture and office equipment in 2007. Also, SBWOTA waives the individual and corporate AMT limits on the use of certain credits. But the act will increase taxes for some taxpayers by changing the "kiddie tax" rules (see Anchin Advantage, third quarter, 2007, at www.anchin.com/pub-anchin.htm).
- **The Tax Relief and Health Care Act (TRHCA)** extends a number of temporary provisions, such as the state and local sales tax deduction for individuals, the research and development credit, and the 15-year depreciation for certain leasehold and restaurant improvements (compared to previous life of 39 years). TRHCA also extends several energy-related tax breaks through 2008 and expands opportunities for funding Health Savings Accounts (HSAs).
- **The Pension Protection Act (PPA)** brings changes related to charitable contributions, such as requiring substantiation of all cash donations, and makes permanent Section 529 college tuition plan provisions that were set to expire after 2010.

Here are some strategies you might want to discuss with your certified public account or an Anchin partner.

Shift Income to Children

For children aged 18 and older, all 2007 income will be taxed at their own, generally lower, marginal rates, including rates as low as 5% on long-term capital gains. That means giving your children income-producing assets can save your family tax dollars this year.

Until last year, the "kiddie tax" applied to children under aged 14. But for 2007, the rule was expanded to apply to children under the age of 18. As a result, their unearned income above $1,700 will be taxed at their parents' marginal rate, so the income tax benefit of shifting income to them will be limited. In 2008, the kiddie tax will be further expanded to children who qualify as dependents because they are under the age of 19, or under 24 and a full-time student, if their earned income doesn't exceed one-half of the amount needed for their support. This expansion of the kiddie tax will further limit the benefits of shifting assets among family members for income tax serving purposes. Asset transfer may still be beneficial from an estate tax planning perspective.

Pay Off Nondeductible Interest with a Home Equity Loan

You may be able to maximize your interest deduction by paying off nondeductible interest – such as that on credit cards or car loans – with money from a deductible class, such as a home equity loan. If you're paying off credit cards, you likely also will benefit by paying interest at a much lower rate. Interest generally is deductible on home equity loan balances up to $100,000.

Time Capital Gains and Losses

The 15% long-term capital gains rate – 20 percentage points lower than the highest regular income tax rate of 35% -- has been extended through 2010. It applies only to investments held for more than 12 months. Timing is important if you've created some big gains from stock sales during the year. Before year end, look for unrealized losses in your portfolio and sell them off to offset the gains. If you end up with a net loss, you can claim up to $3,000 of the net capital loss against ordinary income and carry forward any excess to future years.

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TAX ALERT:
Important Tax Planning Opportunity for Food & Beverage Companies

By Greg Wank, CPA

For many years, food and beverage companies that were C corporations have been given an incentive to donate inventory to charitable organizations. Traditionally, this incentive was not available to S corporations or LLC's. However, as part of the Hurricane Katrina Relief package in late 2005 and a temporary extension under the Pension Relief Act of 2006, this incentive is now available for a limited time to all food companies.

For donations of food inventory made before December 31, 2007, any company may be able to deduct the cost plus one-half of the normal gross profit of the goods had they been sold in the normal course of business. For S corporations and LLC's, this deduction will flow through to the owners for deduction on their personal returns.

For example, if you discarded $50,000 of inventory at cost per year, regardless whether it was disposed of or donated, you received a deduction of $50,000. Now, for this limited time, if you donate the same $50,000 instead of discarding it, you will receive a deduction of as much as $100,000 -- depending on your normal gross profit on the items donated. What's more, this $50,000 "bonus" deduction is not charged against your book or financial statement income. It is a permanent tax-only benefit.

This is an example of how the Food & Beverage Services Group at Anchin stays on top of issues that impact you and your business.

If you would like to learn more on this tax planning opportunity please contact Greg Wank.

Greg Wank is an accounting and audit partner at Anchin, Block & Anchin LLP. His practice focuses on providing accounting, business, and tax planning services to privately held companies. Greg also serves as chair of the Firm's Food & Beverage Services Group. He can be reached at (212) 840-3456 or by e-mail at greg.wank@anchin.com.

Year-end Tax Tips *(continued from page 1)*

Maximize Charitable Giving

Charitable contributions are generally fully deductible as long as your itemized deductions exceed the standard deduction and you don't surpass statutory limits – 50%, 30% or 20% of your adjusted gross income (AGI), depending on what you donate and whether the recipient is a public charity on an operating or non-operating foundation. As for your business, you might consider donating slow-moving inventory. You will get a charitable deduction for the cost of the merchandise, and if you are a C corporation, you may also be able to deduct up to one-half of your normal gross profit on the goods donated.

New rules place further restrictions on charitable giving. For instance, all contributions must be supported by evidence (such as a check). Also, in order to be deductible, property contributed must be in at least good condition.

Time Payments and Bonuses

There are several housekeeping items that could accelerate tax deductions. If you pay your state income tax, property tax or make an additional mortgage tax payment early (the interest portion is deductible), you will increase the corresponding tax deduction for the current year. On the other hand, if you are in line to receive a bonus, consider taking payment next year, which will postpone the payment of taxes on the bonus. It is important to consider the impact that the acceleration of certain deductions might have on your AMT.

These represent just a few key tax planning strategies. For a more detailed explanation of these and many other tax ideas, refer to the Anchin 2007 Year-End Tax Planning Guide located on our website at www.anchin.com/pdf/YETG07classic.pdf. Because of the complexity of the tax law, we recommend that you review your overall tax strategy with your certified public accountant or an Anchin partner.

For further information about any of the tax-saving strategies discussed in this article, please contact Greg Wank.

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