

# Thinking Taxes

by Dan Gordon

**What do you need to do to prepare this year's taxes? And how can PMPs plan for rising tax rates in the future?**

As the saying goes, the only two certainties in life are death and taxes. Both are unpleasant topics. However, there are certain strategies to employ that can minimize the effects of the latter. (You are on your own for the former.) This article will explore what is needed to get ready for 2011 filing as well as strategies that can be employed in times of rising rates.

Careful planning and preparation will help you minimize taxes. Stay calm and clear headed. Ask yourself the following when it comes to taxes: Do you do the tax sprint running around like a maniac at tax time or is your tax planning and preparation run like a smooth marathon?

**2011 TAXES.** To help you keep your stress level to a minimum, you need to know what deductions are available and have the information and documentation available to take advantage of those deductions.

First, you will need to have an accurate profit and loss statement as well as an accurate balance sheet for your business. All figures should be reconciled to bank statements. Most expenses that are reasonable and necessary to carry on your business are deductible. Some expenses by definition (such as penalties) are not deductible.

In addition, business meals and entertainment meetings are only deductible at 50 percent. For these expenses you will need a business log that records the expense, who attended these meetings and the business purpose of these meetings. If you come under audit and you don't have these records, the deductions will be disallowed.

Accurate recording of asset acquisitions, such as vehicles and or bed bug heat equipment, will allow you to maximize the depreciation deductions for these purchases.

You should check with your CPA to determine if any new assets added in 2011 are eligible for Section 179 deduction (you can literally expense 100 percent of the purchase if the assets are eligible).

If you are a C Corp your net income will be taxed at the corporate level using the corporate tax tables. Any dividend payments to owners also will be taxed at the individual level, thereby creating a double tax. It should be noted that dividends are currently taxed at the long-term capital gains rate for 2011 and 2012. During 2013, dividends are scheduled to be taxed at ordinary rates. This can cost as much as an additional 24.6 percent.

If you are a sole proprietor, partnership, or LLC taxed as a sole proprietorship or partnership, you will be taxed at the individual level only. It should be noted that you will be taxed on the profit without regard to whether you distribute these profits or not.

(Continued next page, Taxes)




**AG SPRAY & FERTILIZER EQUIPMENT**  
*"Headquarters For All Your Spraying Needs"*  
[www.gandragproducts.com](http://www.gandragproducts.com)

Caldwell, ID	Pasco, WA
(800)443-0809	(800)788-4453
(208)454-2288	(509)545-5855





**WE CAN MANUFACTURE TO MEET YOUR SPECIFIC SPRAY NEEDS! CALL US TODAY!**



Kestrel Wind & Weather Meters








## ECA of Idaho Officers:

### President

Sam Day  
Cook Pest Control Inc  
PO Box 532  
Twin Falls, ID 83303  
Phone: 208-733-5604  
Fax 208-734-1857  
Email: cookpestcontrol@yahoo.com

### Treasurer

Ben Miller  
Idaho Department of Agriculture  
P.O. Box 790  
Boise, ID 83701  
Phone: 208-332-8593  
Fax: 208-334-3547  
Email: bmiller@agri.idaho.gov

### President-Elect

#### Mike Cieryca

Trugreen  
2393 E. Commerical Street  
Meridian, ID 83642  
Phone: 208-888-3133  
Fax: 208-888-3094  
Email: mikecieryca@trugreenmail.com

### Immediate Past President

Ed Burnett  
Canyon Co. Mosquito Abtmt. Dist.  
9719 Booker Lane  
Nampa, ID 83686  
Phone: 208-461-8633  
Fax: 208-461-4459  
Email: ccmad1director@aol.com

## BOARD MEMBERS:

### Dennis Spickler

Paramount Pest Control Inc  
131 Snake River Ave  
Lewiston, ID 86501  
Phone: 208-743-2152  
Fax: 208-746-8437  
Email: paramount@Lewistondsl.com

### Bob Mitchell

Capitol Pest Management  
PO Box 8705  
Boise, ID 83707  
Phone: 208-368-9855  
Fax: 208-376-4139  
Email: bugslvr@yahoo.com

### Trevor Radford

PBI Gordon  
1609 Middlecreek Ct.  
Nampa, ID 83686  
Phone: 208-250-3120  
Fax: 208-463-9062  
Email: tradford@pbigordon.com

### Heath Edwards

Weed Man  
205 South 5th West  
Rexburg, ID 83440  
Phone: 208-656-9333  
Fax: 208-356-4263  
Email: wmidaho@ida.net

### Larry Treleven

Sprague Pest Solutions  
PO Box 2222  
Tacoma, WA 98401  
Phone: 253-272-4400  
Fax: 253-272-9676  
Email: larryt@spraguepest.com

### Paul Stanger

Land View Professional  
P.O. Box 120  
Murtaugh, ID 83344  
Phone: 208-432-5293  
Fax: 208-432-6821  
Email pauls@lvf.com

### Phil Coulson

Custom Care Pest Services  
5709 S Cole Road  
Boise, Idaho 83769  
Phone: 208-362-9098  
Fax: 208-345-8129  
Email: phil@customcarepest.com

### Teresa Babcock

Canyon Co. Mosquito Abtmt. Dist.  
9719 Booker Lane  
Nampa, ID 83686  
Phone: 208-461-8633  
Fax: 208-461-4459  
Email: teresababcock1@gmail.com

### ECA News

is the newsletter of the Environmental Care Association of Idaho, PO Box 8841, Boise, Idaho, 83707. It is published for members, suppliers, and other interested individuals.

Members' articles, contributions, and suggestions are welcome.

Please submit correspondence and advertising inquiries to:

Executive Coordinator: Ann Bates, 2445 John Adams, Idaho Falls, ID 83403  
Phone: 208-522-7307 Fax: 208-529-0832 Email: abates@ecaofidaho.org

(Continued from last page, Taxes)

For those who have a home office, you are entitled to a home office deduction. This is an office in your home that is used 100 percent for business — it cannot be the kid's computer room that you occasionally pay bills from. It must be a space that is dedicated to carrying on business activities.

If you have a home office, you are entitled to deduct the following:

- A portion of property taxes, mortgage interest or rent
- A portion of homeowners' insurance, utilities, repairs and maintenance
- A portion of Internet service in your home
- Other expenses, including in some instances, depreciation on your home.

(Consult your CPA to determine what deductions make sense here.)

If you can afford it, you should also think about contributing the maximum to a company 401K, or other pension arrangement.

**TAXES ARE RISING.** Now that we have done everything we can to minimize 2011 taxes, what does the future hold? Higher taxes? There is a good possibility.

Conventional wisdom tells us to defer both death and taxes as long as possible. But over the past couple of decades, the individual tax rate has trended downward.

Deferring taxes in an environment where rates are either remaining constant or falling makes sense. In that situation, you would hold on to your money longer, capitalizing on the time value of the money.

And if rates are falling, that deferral lets you take advantage of the lower rate when you actually recognize the income for tax purposes.

Thanks to the ever widening federal budget deficit and the current attitude of many in Washington, this lower tax party is almost over and the tax times will be changing. When the tax increases actually will be implemented is still a matter of speculation, but based on all available information, it's not if, but when taxes will rise.

So is conventional wisdom relevant when taxes are rising? The answer is no. Deferring taxes is not a good strategy in periods of rising rates.

Let's look at an example: Assume you are able to make a profit of \$100 on a job that you have a choice to do in 2012 or 2013. Let's also assume that you are in a 25 percent tax bracket. The current tax rates known as the "Bush era tax cut rates" are set to expire at the end of 2012. If nothing is done in Washington, this 25 percent rate will increase to 28 percent in 2013 (there is talk to raise the rates even further but let's use the 28 percent). That would mean that you will pay an

(Continued on back page, Taxes)



Environmental Care Association of Idaho  
P.O. Box 8841  
Boise, ID 83707

PRSRSTSD  
U.S. POSTAGE PAID  
IDAHO FALLS, ID  
PERMIT NO. 126

(Continued from Page 7, Taxes)

additional \$3 in taxes in 2013. So here it would make sense to do that job in 2012 and not defer it until 2013.

It sounds crazy in an environment where the economy is so fragile to raise rates, but in order for the government to pay for the "sins" of the past, tax increases are probably coming. It should be noted that the top marginal rate if these rates return to the pre-Bush era tables is 39.6 percent. In 1980 the top marginal rate was 70 percent.

So, while rates are going higher, historically, they were much higher 30 or so years ago. However, 30 years ago was another time of extreme economic challenges.

So what do we do? Tax planning is really a business decision and there are two factors to consider. First, do we want to minimize our taxes? And second, if minimizing our taxes means paying taxes sooner rather than later do we have the funds to pay the taxes currently?

**TAX TIPS.** Here are a few tax planning ideas that are relevant in a rising tax environment:

**Realizing capital gains.** Taxpayers who have appreciated property and are looking to sell that property will be taxed a maximum of 15 percent federally. That rate is expected to rise to 20 percent at the end of 2012 (that is the thinking at this writing, there is no guarantee that the government won't change this during 2012). By selling the asset and recognizing the gain prior to the expected increase you will pay less capital gains tax while rates are still low.

**Choosing not to defer income.** If you are planning a large job or some other large service, those who are expecting the tax rates to rise would be better off performing that job sooner rather than later. If you are a cash basis taxpayer, you will need to be paid prior to the rate increase date.

**Deferring expenses.** Where a PCO has the option of deferring an expense into the period where tax rates are rising, he should consider this. Deferring expenses have the exact opposite effect as deferring income.

That means if those expenses are taken when tax rates are higher you will shield more of your income from taxes. Winter is usually when we start to think about taxes. This year we not only have to think about pulling our information together to prepare 2011 taxes, but we also need to consider the future tax increase environment that seems inevitable. It's important that you have a competent CPA on your side who understands the issues and most importantly one who understands the pest control industry.

The author is a CPA in New Jersey and owns an accounting firm that caters to PCOs. Visit [www.pcobookkeepers.com](http://www.pcobookkeepers.com) to learn about his firm. E-mail him at [dgordon@giemedia.com](mailto:dgordon@giemedia.com).

Conventional wisdom tells us to defer both death and taxes as long as possible. So is conventional wisdom relevant when taxes are rising? The answer is no.

Reprinted with permission of PCT magazine.  
Copyright 2012