By Jamie Fortin

TO PAY OR NOT TO PAY?

With the start of a new tax year, take matters into your own hands and regulate how much or how little you want to pay in taxes.

If you own a business as an individual, or are a partner or member in a partnership or limited liability company (LLC) using a cash method of accounting for tax purposes, there is immense value in controlling your own tax fate. Ideally, wouldn't everyone want to control how much – or how little – they pay in income taxes to the IRS or state taxing authority? If you have ever wondered why you owe so much in income taxes, it's time to look into proper tax planning strategies. With the proper tax planning strategies, it is possible to reduce your tax liabilities.

In a partnership or LLC, profits and losses are passed through to the partner or member and taxed on their individual returns. Generally, most individuals pay federal, state and self-employment taxes every year. Starting for tax year 2013, there is also an additional "ObamaCare Tax" that will affect higher income earners.

Taxable income

There are numerous methods and variations in minimizing your taxes, but the simplest ways to decrease your taxes would be to reduce your income and increase your tax deductible expenses. The goal is to decrease the amount of your taxable income, which normally results in less tax.

Generally, it helps to know what your current taxable income is at a certain point in time, so you can determine how much or whether or not you need to start reducing or deferring your income for the year; or increase your deductible expenses. It is best to plan ahead when it comes to taxes. Crossing your fingers and hoping you don't have to pay any taxes is not the best tax planning strategy.

If you haven't done so in the past, I would highly recommend contacting and consulting with your accountant or CPA so you can estimate your taxable income close to the year end. In some cases, you may need to start deferring your income as far back as July. In other cases, some of my dairy clients start deferring their milk income near August or October, depending on their own situation.

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Tax deductible expenses

I mentioned earlier that one of the methods in reducing your taxes is to increase your tax deductible expenses. This can be done by paying some of your December bills you would normally pay in January before the year-end. This can also be done by prepaying some of your feed purchases or other expenses before the end of the year. After determining how much you need to spend before the year ends, it is vital to make sure to spend it on tax deductible expenses. Not all expenses or payments will reduce your taxable income.

For example, dairy farm tax deductible expenses include payments for feed purchases, property tax payments, insurance payments for the dairy, repairs and maintenance, vet and breeding, heifer raising, utility bills, legal and accounting fees, farming expenses, etc.

Payments that *do not* affect your taxable income consist of principal portion of loan or debt payments, purchases of equipment or dairy herd, and withdrawals to yourself or other partners/members.

Although purchases of equipment do not directly lower your taxable income, if the equipment meets certain criteria it allows businesses to deduct the full purchase price of qualifying equipment or take additional bonus depreciation during the tax year.

There are certain requirements that apply to reap the benefits of these tax deductions. However, these provisions change from year to year, and vary by state. This means that you can take this deduction when calculating your federal taxable income, but not all states get this particular deduction when calculating their state taxable income.

Other income sources

While these tax planning ideas help reduce your business income, many individuals may forget about their other sources of income: rental income, investment income (interest and dividends), stock sales, etc. For many people these other sources of income affect the amount of taxes they pay significantly. This is why tax planning is so important.

At the start of the new tax year, take matters into your own hands and regulate how much or how little you want to pay in taxes. Hopefully these basic tax planning tools can help you be more aware of your tax situation, and assist you in managing your taxes down the road.

If not I would suggest to contact your CPA: I'm sure they will be happy to help you. ❒

■ **Jamie Fortin,** CPA, MST, is Manager, ***Frazer, LLP,*** Brea, Calif. Contact her by e-mail at jfortin@frazerllp.com or call 714-990-1040.