



Pain-free Tax Filing

Tax time season doesn't have to be stressful. There are a number of options to help make tax filing easy.

by Peter Fretty



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Regardless of your business' fiscal year end, now tends to be the natural season to seriously think about what you need to do to minimize expenses while improving operations. Below are a few quick tips to keep in mind as your business prepares for the months ahead.

Clean House

Now is the perfect time to catch up on any bookkeeping that has fallen behind throughout the year. "Many times property owners find errors in rents and collections or in expenditures only when the taxes are prepared," says Joe Schneid, tax services principal at Lake Oswego, Ore.-based Aldrich Kilbride & Tatone LLC. "Investing a little time now can help improve cash flow and ease the filing process."

Another part of finding order is to sell, donate or otherwise dispose of assets that are no longer useful, explains Schneid. "You cannot deduct any remaining unappreciated cost basis on an asset that is out of service, but you can write off the remainder if you donate or junk it. You also may find that the property is worth more to someone else and turn an unused asset into cash," he says. "Also, if you are considering a sale of your commercial property, consider a like-kind exchange to defer the gain on the sale."

Deal With Deadlines

Tax time is ripe with deadlines. Commercial property owners need to know the deadline for filing a tax appeal, says Timothy Duggan, spokesperson for Lawrenceville, N.J.-based Stark & Stark. "For example, if you seek to appeal your 2006 tax assessment, in New Jersey you need to file your appeal by April 1, 2006," he says. "In embarking on this process, understand that you are appealing just the tax assessment, not the amount of taxes they pay. A property's assessment is multiplied by a tax rate to determine the amount of real estate taxes to be paid."

Duggan warns that it is important to understand that the property owner has the burden of proof and must show that the property is over-assessed. "There are risks involved with a tax appeal. If you cannot make your case, you actually may see your assessment raised if the tax body finds the property is worth more than the assessed value, or the taxing district files a cross appeal," he says. "In short, you must look before you leap."

Appreciating Depreciation

John Maddox, principal at Bingham Farms, Mich.-based Maddox Ungar PLLC, adds that companies need to investigate the cost segregation study also known as component depreciation. "This type of study allows you to write off a portion of the cost of a commercial property much faster than the default period of 39 years," Maddox says. "Securing qualified tax representation can aid a property owner in determining if their particular property qualifies for a faster recovery period."

The next step is to reallocate the cost of the purchase of the property between 39, 15, seven or five-year property and land for depreciation purposes, explains Maddox. "The time value in terms of money savings on the purchase of a \$10,000,000 distribution company could be approximately \$300,000," he says. The savings can vary up depending on the type of building. Also, existing businesses can perform a change in accounting to take advantage of a cost segregation study."

Avoid Overlooking the Obvious

According to Schneid, many businesses do not have retirement plans that meet the needs of the owner or its employees. "Unfortunately for the commercial property owner, investment income generally is not retirement plan eligible," he says. "However, a real estate management business should generate the type of income that would qualify for retirement plans, such as a 401(k) and Roth IRA."

Alternative Minimum Taxes (AMT) are the latest buzzword for tax planners. "This is because millions of U.S. taxpayers will pay the AMT, which is designed to calculate tax on a broader base of income at a lower applied rate," Schneid says. "The major factors for commercial property owners include depreciation differences and tax payments. As a result, if you reside in a high income tax state, be aware that the AMT may affect your tax planning."

Capitalize on Energy Saving Efforts

Maddox also suggests that property owners familiarize themselves with the Energy Tax Incentives Act of 2005, which provides tax credits for builders of new energy-efficient homes sold or acquired in 2006 and 2007, and for installation of fuel-cell power plants. "There is also a deduction available for the cost of energy-saving improvements to commercial buildings," he says.

The key effective date to receive the added deduction is the "placed in service" date, which must have been after Dec. 31, 2005, to qualify, explains Maddox. "The energy-efficient commercial building property must be installed as part of interior lighting systems; the heating, cooling, ventilation, or hot water systems; or the building envelope; and it must meet a 50 percent energy-reduction standard," he says. "The maximum deduction is generally \$1.80 per square foot."

Understand Big Ticket Purchases

Understandably, most business owners would prefer to put the profits back into the business rather than pay taxes, which is one reason that many people often investigate purchasing big ticket items before the end of their fiscal year. However, there are certain aspects to consider before making a cash outlay.

- If the existing piece of equipment will last through another season, just make necessary repairs now and get the deduction for that without tying up cash into unneeded equipment.
- Rather than thinking of this as a time to replace equipment, it could serve as a time to consider items the business currently does not own, but that could serve as revenue generators.
- While some limitation exist, big ticket items that are not real estate can qualify for the Section 179 deduction, which is typically dollar for dollar up to \$108,000 in 2006 of equipment purchased and used in the business.

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