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Improve Your Cash Flow By Speeding Up Your Billing

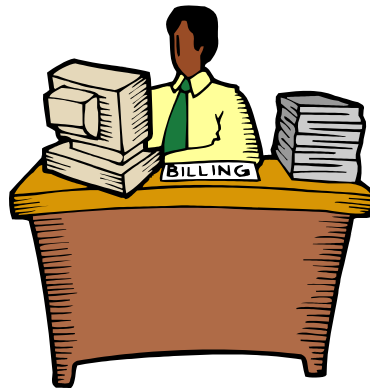
Cash – the money that flows through a business – is the lifeblood of every company. The skill with which a business owner manages this cash is critical to the success of the company.

Too often, inefficient billing systems delay the flow of cash. It is obvious that the sooner a company bills its customers, the sooner it will get paid. Likewise, the longer a company delays invoicing, the longer it will wait for its payment.

Some business executives tend to take their billing procedures for granted, but if you will review them periodically, you might be able to speed them up. Remember, the faster you bill, the sooner you'll get paid.

Here are a few ideas to think about:

- Prepare invoices before you ship the goods. Some companies don't prepare invoices until after they have shipped orders. In many cases, this causes an unnecessary delay. If your company is in a position to ship most of its orders promptly, you should consider preparing invoices before shipment is made.



In many companies, this is frequently the first step taken when an order is received. It is usually done by preparing the invoice and the packing slip on a single set of forms which, in addition to speeding up billing, also saves work.

- Invoice more frequently. Many companies treat invoicing as a time consuming and burdensome task and delay their invoicing to the end or beginning of the month. Some delay their invoicing until they can build up a quantity of invoices to justify the time needed to invoice. The time and effort needed for invoicing can be greatly reduced by the use of computerized billing systems. The

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taxPOINTS

Loophole: When you swap like-kind property, you can defer the entire gain if you properly structure the transaction. *To do so...*

- You must reinvest into the new property the entire equity received from the sale, and...
- Your debt on the new property must be equal to or greater than that on the old property. **Note:** If the values of the properties are unequal, any extra cash you receive may be taxable, and any amount you pay can be added to the basis of the replacement property.

Bad debts. If your business uses accrual accounting, examine its receivables to find any that have become uncollectible and deduct them from income. The business will accrue them in taxable income – and pay tax on income it doesn't receive – if it fails to deduct them.

Note: Bad debts must be specifically identified, not estimated.

Loophole: Charitable contributions. Donate appreciated securities instead of cash. Giving cash is an expensive way to make a donation because you're giving money that has already been taxed. **Better:** Give securities that have gone up in value since you bought them. You get a tax deduction for the full market value of the securities and you avoid capital gains tax on the securities' appreciation. **Caution:** You must have owned the appreciated assets for more than 12 months to get the full write-off. Otherwise, your deduction will be limited to your basis (tax cost) in the securities.



Tax Breaks for Supporting Your Parents

If you contribute to the support of your parents, you may qualify for several tax breaks. You may be able to claim a medical expense deduction if you paid medical expenses for your parents and use those same medical expense payments to determine whether you can claim a parent as a dependency deduction. In addition, if you are single, you may be entitled to head-of-household tax status and pay tax at a lower tax rate.

To qualify for these tax breaks, you must satisfy certain IRS rules. To claim a parent as a dependent, you must contribute more than half of the total spent for the parent's support. The parent's gross income for the calendar year must be less than the exemption amount for the year (\$3,800 for 2012).

Furthermore, support received by one parent from more than one source is considered to be used equally for the support of both parents. You can, however, allocate your support contribution to one parent by making a notation to that effect on your check. This can allow you to take a dependency deduction for at least one parent.

If you pay for more than half of a parent's support, you can deduct the medical expenses you paid for that parent subject to your own 7.5% adjusted gross income limitation. In addition, you can include payments for a parent's medical expenses as support payments to determine whether you have furnished more than half of the parent's support. The best way to handle a parent's medical expenses is to pay them directly to the provider rather than giving the money to the parent.

If you are single, supporting your parents may also qualify you to file as a head-of-household, which means a lower tax rate and a higher standard deduction. To get this tax benefit, you must maintain a separate household which is the principal residence of your parents and at least one of your parents must be your dependent. To show that you furnish more than half of the support of one or both parents, make a notation on your support checks to indicate that they are for the support of one particular parent.

Tax Tip: Auto Donations

If you give your car or boat to charity and the charity or its agent sells it, the value of your donation for tax purposes is limited to the sales proceeds. This rule doesn't apply if the charity uses or improves the vehicle in a substantial way before selling it. **Example:** Substantial use is a charity delivering meals to homebound individuals that drives the car 12,000 miles before selling it.

In such situations, donors can rely on the blue book value of the car or other fair market values. Charities must report sales proceeds to you and to the IRS.

Strategy: To maximize your deduction, contribute your car to an organization that intends to use it in its charitable activities – ask the charity about its intentions.

Putting a Proper Value on Inventory

Furniture retailer John Richard Martin was known as the king of the easy chairs. Comfort was J.R.'s business, and sales were hot, thanks to a new television commercial that featured him lounging on one of his chairs. "Every time I need to relax," he'd say in his best copy of a Texas drawl, "I just ease down into one of these here chairs." Many customers followed enjoying the varied comforts of J.R.'s chairs, which produced handsome profits.

For the year ending December 31, 2011, J.R.'s company, Martin Gallery, Inc., had taxable income of \$95,000 and an inventory valued at a cost of \$260,000 and at \$220,000 when valued at the lower of cost or market. The lower figure reflected the lower market value of his inventory. The company chose to use the cost method of valuing the inventory and paid federal income taxes of \$20,550. J.R., like many business

people, wished that his tax bite was not so severe.

A BETTER SOLUTION

Inventory, like cash, is an asset and is not written off until sold. Consequently, the higher inventory is valued the greater a company's taxable income will be. In contrast, the lower inventory is valued the less a company's taxable income will be. There are a number of ways to value inventory, but most merchants and manufacturers rely on one of two principal methods. The first values inventory based on its cost, while the second figures an inventory's worth based on its cost or market value, whichever is lower. The advantage of the lower of cost or market method is that it allows a company to take shrinkage and obsolescence into account when determining the value of the materials on hand at year's end. The thinking is that, if the market value of the

inventory drops, the selling price of the finished product will be lower as well. By using this method, a company can reduce its taxable income and, of course, its taxes. The savings are noteworthy.

After J.R. Martin became a star, he took to calling his inventory of oak and leather furniture his "vast holdings"; but it turned out that the company was holding a fair amount of furniture that was not worth very much. If Martin Gallery had elected to value its inventory at the lower of cost or market, it would have allowed the company to reduce its taxable income by \$40,000, the reduction in the value of the inventory due to shrinkage. The company's federal income tax bill for 2011 would have been \$8,750, instead of the \$20,550 actually paid.....a savings of \$11,800..... Now to our J.R. partner, "That's buys a whole lotta beef."



When You're Ready to Retire

Delay retirement plan distributions for as long as possible and then withdraw only the minimum required amount.

For cash to live on, deplete nonretirement accounts completely, except for an emergency fund, before cutting into your retirement accounts.

Principal withdrawn from a nonretirement account will not be taxed, while principal withdrawn from a retirement account will be fully taxed at your highest rate.

Note: "Qualified" withdrawals of contributions and earnings from Roth IRA and Roth 401(k) plans are not taxed. To be qualified, a withdrawal must take place after the account has been established for five years and the participant is older than age 59 1/2, or upon death or disability of the participant, or if the participant is a first-time home buyer.

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cost to computerize or upgrade an existing computerized billing system can be justified by the reduction in time and effort needed to prepare invoices. Companies that delay invoicing are actually slowing down their cash flow.

In the long run, more frequent billing can often produce greater savings for a company by improving cash flow. And, of course, frequent billing helps to reduce the risk of non-payment.

- Assign shared order processing responsibilities. No single person should have the sole responsibility for any aspect of order processing

or billing. A typical order processing procedure might, for example, involve four steps: order entry, credit check, coding and editing. Each of these has to be done before shipping and invoicing are possible. But if each of these four procedures is assigned to a different employee, a real bottleneck can develop if, for example, one employee is ill.

It might be a much better idea to assign a group of orders to each employee and let that employee take the orders through each of the four order processing stages that precede shipping and invoicing. This will greatly reduce the possibility that the illness or inefficiency of one employee might delay billing.

Furthermore, it familiarizes more employees with the total order processing procedure.

- Segregate "problem" orders. Order processing can be slowed to a walk by "problem" orders or by orders from new customers. These orders should be immediately removed from the normal processing routine and given to a specific person for resolution.

These billing and order processing procedures may or may not be suitable for your business, but they are good examples of things to consider when you review the billing procedures in your company. Remember, efficient order processing means faster billing, and the faster billing means improved cash flow.

Investment Tip: How to Tell When to Sell Stock

Although many factors can lead you to sell a stock, it's a good idea to have some kind of numerical rule of thumb for ridding your portfolio of stocks that are losing or will become losers.

Many investors tend to sell a stock when it is high in value. If a stock starts falling in price, they hesitate, wanting to wait until it recovers. This strategy can leave an investor with a portfolio full of poor stocks.

A better strategy is to set guidelines for when you will sell, and stick to them. Decide ahead of time which contingencies will cause you to dis-



pose of a stock. Two rules of thumb used by investors are: (1) sell when the company's earnings for a 12-month period go below the earnings for the

previous 12-month period; and (2) sell when a stock's price falls by more than 10%.

Another contingency that might cause an investor to sell is that the reason a stock was bought no longer applies.

For instance, suppose you bought shares of Plum Software because it was launching a new product that promised growth for the company. You find out a few months down the road that Plum's plans have fallen through. That is the time to sell. You bought the stock for growth, and no growth is in the offing, so there's no reason to keep it.