Seven Ways To Cut Costs

The New Tax Law Provides Opportunities Which Contractors Should Review Carefully

Lest you overlook them, here are seven steps which experts say an enterprising contractor should investigate right now to take maximum advantage of the Economic Recovery Tax Act of 1981.

1. If you still can, delay as much of your income to 1982 or later. The tax cut is only 1.25 percent for 1981. But taxes fall 10 percent in 1982, 10 percent in 1983.

2. Crowd whatever deductions you still can legally into 1981. Pay in advance on 1982 contributions and other deductible expenses, since they will save more at 1981's higher tax rates.

3. Find out how the individual Retirement Accounts work. Even if you're covered by a pension plan you will be able to put $2,000 (singles) or $2,250 (couples) in this tax-free account even if you're covered by a pension plan.

4. Check your Keogh. The self-employed can put 15 percent of net earnings up to $15,000 into this tax-sheltered savings plan each year starting in 1982.

5. Look over your will. The estate tax drops sharply over the next six years, which may change financial considerations that dictated the terms of your present will.

6. You should review any gift or loan plans. Beyond the January 1, 1982 date you can give a child or other recipient $10,000 in any year $20,000 for couples without gift tax; present limits are $3,000 and $6,000.

7. It's time to think again about your savings and investments. Next year you can exclude only $100 in dividends from taxable income. But for certain CD's bought after the 30th of this month there is a $1,000 lifetime interest exclusion.

As an employer you should know that the Revenue Ruling 81-129 the IRS has ventured into a vexing area —how long can pregnancy and childbirth be reasonably considered disabling and thus make the mother eligible for sick pay if her employer offers such a fringe benefit?

The IRS said 10 weeks in a ruling that sick pay up to that length of time isn't considered wages for Social Security tax purposes.

This ruling involved a company plan, written and nondiscriminatory, that covers all full-time salaried employees, and all permanent hourly rated employees working 20 hours or more a week.

An employee is automatically eligible for sick pay if she continued working right up to the beginning of the ninth month of pregnancy. Maximum time for which a person automatically receives benefits after delivery is 6 weeks.

IRS held the law excludes for FICA (Social Security) and FUTA (unemployment) taxes any payment by an employer on account of an employee's sickness or accident disability and then said:

"In this case, the employer can reasonably treat absences as due to sickness disability when they occur after the beginning of the ninth month of pregnancy and within six weeks after delivery, without inquiry as to the actual degree of disability."

A Look at Inventory

The last-in, first-out (LIFO) method of inventory accounting helps you sidestep artificial inventory profits—and the income taxes that would be levied on them.

LIFO's attractiveness has been enhanced by a pair of recent Tax Court decisions. The allowable limits on what comprises a pool—a group of similar products or product classes in your inventory—has been expanded.

A rule of thumb holds that a taxpayer gains an advantage when few pools as possible are listed. This is because the fewer listed pools there are, the fewer are the changes that lower costs, i.e., older costs will flow from the inventory column to the cost of goods sold. Thus, you don't get the taxable income increase.

Of course, the IRS may challenge you if you use too few pools.

An explanation of LIFO's advantages and disadvantages is contained in a booklet, Tax Savings Through LIFO, published by the Ernst & Whinney accounting firm. For a copy: Ernst & Whinney, National Tax Office, 1225 Connecticut Avenue, NW, Washington, DC 20036.