

Are bad business debts a tax deduction?

If you're in business long enough, you'll run into a customer who doesn't pay you. Despite your best efforts, you may conclude that you'll never receive the money. Do you have a tax-deductible bad debt? The answer depends in part on whether you operate your business using the cash or accrual method of accounting.

Cash. When you use the cash method, you report taxable income when you receive it and deduct expenses when they are actually paid. While this makes your bookkeeping simple, you get no direct deduction for a bad debt. Since the income was never received, it was never reported or taxed. However, you will still be able to indirectly deduct the labor, merchandise, and overhead used to provide for the goods or services that were delivered but not paid for.

Accrual. Under the accrual method, you report income when you send an invoice to the customer. Expenses are deducted when they are due, regardless of when you pay them. This method is more complicated than the cash method, since you must track accounts receivable and accounts payable. However, because you report taxable income when you bill your customers, you have a bad debt deduction that you can claim as an operating expense if your customers fail to pay.

For more information about accounting for bad debts, contact us.

Keep up with section 179 depreciation changes

Did you know that a recent law made changes to the section 179 expensing election for 2016? These modifications took effect as of January 1. Here's what to consider as you make asset purchasing decisions this year.

- Change #1. Beginning in 2016, section 179 is indexed for inflation. This year, the basic section 179 expensing limit will be \$500,000. That limit is reduced dollar-for-dollar once your purchases exceed \$2,010,000.
- Change #2. The definition of "section 179 property" now permanently includes computer software and real property such as qualified leasehold and retail improvements and restaurant property. That means you can elect to use section 179 expensing when you purchase those assets.
- Change #3. You may be able to deduct more of qualified leasehold and retail improvements and restaurant property in 2016. Beginning this year, the law eliminated the

\$250,000 cap on the amount of section 179 you could claim for this property.

- Change #4. Beginning in 2016, air conditioning and heating units are eligible for section 179 expensing.

Contact us for help in maximizing the section 179 deduction for your business asset purchases.

Protect your credit score

Investor Warren Buffet once said, "It takes 20 years to build a reputation and five minutes to ruin it." The same maxim applies to good credit. Stellar credit scores don't happen overnight or by accident. Instead, you have to exercise financial discipline, sometimes for years. The reward: lenders who are willing to offer mortgages and car loans at favorable interest rates.

Unfortunately, like a good reputation, a strong credit score can easily be ruined. Here are three simple ways to devastate your credit score.

- Max out your credit cards and continually fail to make required payments. Your credit score is a number, generally between 300 and 850 (worst to best), that lenders use when deciding whether to extend credit. About 35% of your credit score is based on your payment history. Paying late or paying less than required minimums can wreak havoc on your score and may signal to lenders that you're overextended.
- Cosign a loan for an irresponsible friend. There's a reason your pal needs a cosigner - and it isn't due to being a good credit risk. When you cosign for a loan, the status of the loan will appear on your credit report. Adding insult to injury, if your friend defaults, you're responsible for the unpaid balance.
- Close or open credit card accounts in quick succession. Either move can adversely affect the ratio of how much you owe in relation to your credit limits. As this ratio climbs, your credit score will tend to sink. Say, for example, you have three credit cards and each has a \$1,000 limit. You carry a balance of \$500 on one of those accounts. That's a credit utilization ratio of \$500 to \$3,000 or about 17%. If you close one of the accounts, the ratio will jump to 25% (\$500/\$2,000). Though you haven't accumulated more debt, your credit score may be hurt.

Be careful with your credit. Negative events can impact your rating for a long time, making lenders reluctant to offer you money.

Thank you for selecting our firm for your tax and accounting needs. We appreciate the confidence you have shown in us, and we remain ready to assist you at any time. Also, thank you for recommending us to your family, friends, and associates. We appreciate your referrals.

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