

# Business Decisions Have Important Tax Consequences, Advises Ruth Lyle

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Post Staff Writer

(In last week's Post, tax consultant Ruth M. Lyle, of Deloitte Haskins & Sells, discussed the taxes and fees that a new business can expect to encounter. She continues her comments here.)

"New businesses are faced with a number of decisions which have significant income tax consequences," declares tax consultant Ruth M. Lyle, of Deloitte Haskins & Sells. Taxes are affected by the form a business takes: sole proprietorship, partnership, corporation or S corporation.

Other factors having tax consequences include the accounting period and accounting method selected; the election to amortize various expenses; the choice of inventory valuation method; the method chosen for deducting bad debts; the decision to buy or lease capital assets; and others.

S corporation status is available to corporations having fewer than 35 shareholders. For federal income tax purposes, S corporations are treated like partnerships, yet they retain the legal benefits of limited liability for shareholder losses, explains Lyle.

"Partnerships are not taxable entities," she continues. "Income or loss is passed through to the partners."

In choosing an accounting period, be sure not to end your business year in the middle of a season, in the case of a seasonal business. "The selection of a proper accounting period may help to equalize income and minimize budgeting and other administrative problems," Lyle advises. Some restrictions apply, depending on the form the business takes.

In selecting an accounting method, your two primary choices are the cash and the accrual methods. Cash basis taxpayers report income and expenses when received or paid, while those on the accrual method report income and expenses as they become due. The accrual method is often easier to use, says Lyle, and must be employed by businesses which have inventories. The cash method, on the other hand, is more flexible in terms of shifting income and deductions from one year to another.

"The selection of a debt-to-equity ratio—that is, the amount of debt vs.

the paid-in capital—also has important income tax consequences," Lyle advises. The return on their investment that owners in a corporation receive from the company are taxable to them as interest or dividends. The corporation can deduct interest paid on its tax return, but dividends paid are not deductible, and are therefore taxed twice—once to the corporation and once to the shareholder. "Because of the many pitfalls to be avoided in this area, it is absolutely essential to discuss this issue with your lawyer or accountant," Lyle adds.

A variety of tax credits can be used to reduce tax liability and are available to sole proprietors, partners in a partnership, corporations, and S corporation shareholders.

Estimated tax payments must be carefully planned to avoid penalties involved in underpayment. Corpora-

tions are required to pay at least 90 percent of their tax liability at certain points throughout the year; others are required to pay at least 80 percent. North Carolina requirements are similar, although not identical, in this area.

Adequate recordkeeping is vital to establish deductions and credits for income tax filing. Certain records should be retained permanently, according to Lyle. These include a company's general ledger, cancelled checks for income taxes, purchase journal, tax returns, and sales and use tax returns.

Because taxes are such a complex issue and are affected by so many business decisions, an accountant can best advise you. Among items to discuss with him or her include form of business, choice of accounting method, setting up an accounting system, recordkeeping requirements, estimated payments, inven-

tory method and control, projected cash flows, purchase or lease of capital assets, and annual tax planning.

Next week: Insurance and your business.



Recently appointed Deputy Grand Secretary for the Most Worshipful Prince Hall Grand Lodge for the state of North Carolina was recently named "Secretary of the Year" at the 111th Grand Session held in Asheville, N.C. At the annual Grand Convocation, held in Durham, Smith was elected and installed as the Grand Treasurer of the Tarheel Grand Commandery-Riding Chapter. Smith is the owner and manager of Smith's Watch and Jewelry Repair. He is a graduate of Wayne Community College, Joseph Brown School of Watchmaking, and East New York Vocational Technical School. A member of Clinton Chapel Church in Fayetteville, N.C., Smith serves as church secretary and as a Sunday School teacher.

## Child Support Enforcement Cost-Effective Program

Human Resources Secretary Willie J. Kirk Jr. said that Child Support Enforcement is one of North Carolina's most innovative and cost-effective programs.

"The Child Support Enforcement Program provides additional support and assistance to children and families in North Carolina by ensuring that responsible parents support their children to the extent of their ability," Kirk emphasized.

Mary Jones, who receives public assistance through AFDC (Aid to Families with Dependent Children), was referred to her local child support enforcement office for help in locating John Smith, the natural father of her two children. He had recently left the area to accept another job, and Mary did not know where he had moved. She was not receiving any child support and required by law.

According to Edwin C. Riley, Head of the Child Support Enforcement Program for the N.C. Division of Social Services, this is a typical case for local and state programs to handle. He said that the Child Support Enforcement Program was established in 1975 as Title IV-D of the Social Security Act. The basic purposes of the program are to ensure that children are supported by their parents, and to reduce welfare costs to the taxpayer.

"In a case such as this, the local child support enforcement program would try to locate the parent. If they are unsuccessful, they ask us for assistance," Riley said. "Once the missing parent is located, the information is returned to the local program for follow-up."

He noted that follow-up generally includes scheduling an appointment with the located parent and explaining the child support enforcement program. The various methods of establishing paternity and support through criminal, civil suit, or execution of a voluntary acknowledgement of paternity and voluntary support agreement procedures are also explained.

"John Smith, for example, readily admitted that he was the father of both children and a voluntary support agreement was worked out," Riley said. "The agreement was incorporated as a court order, and both the department of social services and the clerk's office were notified of the support ordered by the court. The AFDC money was terminated because the amount of support paid was enough to meet the family's needs."

He pointed out that North Carolina's child support enforcement program has been very productive since its beginning a decade ago. In 1975, there were approximately 16,000 active cases; now there are nearly 147,000. Over the 10-year period, the program has accomplished 79 percent of the paternity determinations and 65 percent of the support obligations through voluntary means. The program has also located 61 percent of the absent parents it attempted to find.

Paternity has been established for 51,000 children and child support obligations for 85,000 families since 1975. The child support enforcement program has collected over \$78 million in support payments. The default rate on support payments averages about 50 percent each year. An estimated 150,000 enforcement actions have been filed to get

non-paying parents to make their payments.

"Nationally, we have been recognized as one of the best in the nation and our program has been used as a model by several other states," Riley said.

People who need child support assistance should contact their county department of social services, their local child support agency, or call CARE-LINE toll-free at 1-800-682-7030.

## Lucretia Joyner

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"We're a lot alike. We've been best friends for three years and she's always there when I need her. She gives good advice. We work on school projects together, go out together, dress alike, go shopping, and talk about boys."

Another of Lucretia's best-loved people is her mother, Mary Elizabeth Love. Lucretia says her mom's understanding and can be counted on for encouragement. "She'll bend over backwards to help me," Lucretia assures. It's for her mother that Lucretia says she plans to do well in life. "I'm going to reach all my goals, all for my mom!" she declares.

Lucretia's the baby in her family with two older sisters, Cynthia and Gail, and brothers, Shelton and Darien. "It's an advantage being the youngest," she relates. "Most people think I'm spoiled but I don't think so."

Maybe, just maybe, Lucretia admits, her dad spoils her a little. Her father, Willie Lee Joyner, lives in another town and writes her often. "He gives me advice," says Lucretia.

Given the chance, this week's beauty has some advice of her own to share with those her age. "Set high goals for yourself," she notes, "and, live one day at a time to achieve them."

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