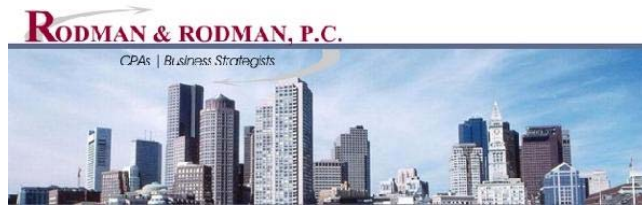


The Rodman Report - August 6th, 2010



Sales Tax Holiday Returns August 14th and 15th

by Thomas Astore - Tax Director

The return of what had been an August tradition, the sales tax holiday weekend, was recently signed into law by Governor Patrick. This year the sales tax holiday will be on **Saturday, August 14th and Sunday, August 15th.**



The law is virtually identical to those in prior years in that the limit for exempt sales remains at \$2,500 and excludes motor vehicles, meals, motorized boats, telecommunications, gas, steam and tobacco products.

The Massachusetts Department of Revenue has a web page which provides details regarding the holiday. Please click [here](#) and you will be taken to the page where you will find helpful examples for both consumers and retailers that clarify the rules. Please feel free to contact us here at Rodman & Rodman if you have any questions.

The Biggest Cash Flow Mistake

by Larry Rice, Director

Cash flow is akin to blood flowing through the human body. Without good blood flow, we die. **A business with an absence of positive cash flow also eventually dies. You can make money but still be cash poor.** I am certain this isn't news to most of you. In seminars I run on the subject, I lay out a fairly simple example of a company that shows a nice profit but ends up the year with \$-0- cash in the bank, and thus in huge trouble.

In the seminar example there were a number of mistakes made by the company:

- Not paying close attention to receivables.
- Paying cash for long-term assets.
- Paying vendors too soon.

The biggest mistake that was made was that the company was not projecting cash flow.

Because of this, what could have been a 6 month warning ahead of time that cash flow was heading south while profits were remaining stable, became a 2 week warning that the company was running out of cash completely. *It is essential to project cash flow.*

A good cash flow projection starts with a good sales projection. By using historical data, it is not

a perfect model but often your past sales allow you to look to what your future sales should be. You should always consider any changes in your environment, be it competition, economic changes, etc. Once you have that sales projection, then it is a matter of translating those sales into the time frames that you get paid for those sales. For some businesses, a sale in January won't translate into cash until March. Most businesses have a strong sense of how much and when they need to pay for their expenses. With this information, projected cash 6 months from today becomes a matter of taking your current cash position, adding to it the cash collected on current accounts receivable and sales projected for the next 6 months and deducting the bills expected to be paid over that same time period. Don't forget to take into account a couple of items that are often missed doing a projection of this nature:



- Fixed asset purchases (equipment, computers, vehicles)- These expenditures are not reflected directly in your profit & loss so they are often missed when planning cash flow.
- Tax payments- These payments, whether made at the business level or made on behalf of the owners in pass-through entities, need to be considered.
- Principal payments on debt- Your profit and loss will reflect the interest portion of loan payments, but does not reflect the principal portion.

Projecting cash flow is not a walk in the park, otherwise everyone would be doing it. I have found that it is the first projection that is toughest. Once you work through the few challenges that will invariably occur, you'll figure it out. If it still sounds difficult, please reach out to us at Rodman & Rodman to assist you with getting a cash flow projection process established. Knowing about potential cash flow problems months before they occur gives you an opportunity to do something about it.

Tax Planning in Uncertain Times

by Tom Astore, Tax Director

Absent tax legislation, which seems unlikely to occur until after the mid-term elections in November, various tax provisions are set to automatically change, including:



Individual Tax rates.

For 2010, the individual tax rates are set at 10%, 15%, 25%, 28%, 33%, and 35% (taxable income in excess of \$372,950 for both married filing joint(MFJ) and single).

Beginning in 2011, unless Congress acts, the following rules automatically will be in place:

1. The first slice of taxable income will be taxed at 15% - the bottom 10% bracket will disappear.
2. The size of the 15% tax bracket for married taxpayers filing joint returns will be 167% of the 15% tax bracket for individual filers.
3. The top four brackets will be 28%, 31%, 36%, and 39.6%.

The Obama Administration is proposing the following rate structure:

1. The bottom four brackets would remain at 10%, 15%, 25%, and 28%.
2. The size of the 15% tax bracket for married taxpayers filing joint returns would continue to be twice the 15% tax bracket for individual filers.
3. The 28% bracket would be expanded to assure that taxpayers won't see their taxes rise as a result of the increase in the top two brackets (see below).
4. The top two brackets (currently 33% and 35%) would rise to 36% (taxable income above \$237,300 for MFJ) and 39.6% (taxable income above \$382,650 for MFJ).

Alternative minimum tax.

Many taxpayers are finding that they are paying federal tax under the alternative minimum tax rate structure, thus paying a flat tax of either 26 or 28% on their adjusted taxable income. One problem with this system is that inflation has eroded the alternative minimum tax exemption which reduces taxable income. In an effort to keep pace with inflation and bracket creep, Congress has adjusted this exemption over the past several years. However, unless action is taken, this exemption will revert to pre 2009 amounts.

The alternative minimum tax (AMT) exemption amounts for 2010 dropped to \$33,750 for unmarried taxpayers, \$45,000 for joint filers, and \$22,500 for married filing separately (by contrast, for 2009, they were \$46,700, \$70,950, and \$35,475 respectively).

Under the Administration's proposals, effective for tax years beginning after 2009, the individual AMT exemption amounts, the thresholds for the phase-out of the exemption amounts, and the threshold amounts for the beginning of the 28% bracket are indexed for inflation from the levels in effect for 2009. Here's how these changes would work out:

1. For 2010, the AMT exemption amounts would be \$46,750 for an unmarried individual, and \$71,050 for married filing a joint return. The AMT exemption phase-out threshold would rise from \$112,500 to \$112,700 for an unmarried individual and from \$150,000 to \$150,250 for married filing a joint return. The 28% bracket threshold (the point at which the tentative minimum tax rises from 26% to 28%) would rise from \$175,000 to \$175,300.
2. For 2011, the AMT exemption amounts would be \$47,900 for an unmarried individual, \$72,750 for married filing a joint return. The AMT exemption phase-out threshold would rise to \$115,400 for an unmarried individual and to \$153,850 for married filing a joint return. The 28% bracket threshold (the point at which the tentative minimum tax rises from 26% to 28%) would rise from \$175,000 to \$179,500.

The Administration's proposals also would permanently allow individuals to offset their entire regular tax liability and alternative minimum tax liability with nonrefundable personal credits.

Taxation of capital gains and qualified dividends.

Under current rules, most long-term capital gain is taxed at a maximum rate of 15%. If the long-term capital gain would otherwise be taxed at a rate below 25% if it were ordinary income, it is taxed at a zero percent rate. Qualified dividends are taxed to noncorporate shareholders at the same rates that apply to long-term capital gain. Beginning in 2011, again if Congress does not act, long-term capital gains will be taxed at 20%. Additionally, dividends paid to individuals will be taxed at the same

rates that apply to ordinary income.



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Thank you for checking in on The Rodman Report. We'll see you next time.

Best regards,

The Rodman Team

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