

Do The Math!



The Taxman Cometh

By Jay Goltz

To do high production framing and be competitive, you need to have efficient machinery. There have been a lot of improvements made over the past 10 years, and it always pays to keep an eye open for things that will save you time, scrap, or give you a better overall product.

This gets us to one of my favorite subjects, the “I can’t afford” syndrome. Buying equipment for your business has nothing to do with whether or not you can afford it. It only has to do with cost justification. Let’s do the math!

Let’s say that there’s a new saw on the market that allows you to cut the frames quicker. Let’s also assume that it now takes you one minute to cut a frame and that this saw will cut 20 percent faster. If you are paying \$10 an hour for your employee, it’s really costing you more like \$18 an hour if you factor in FICA, workman’s comp, unemployment insurance, health insurance, vacation pay, breaks, and downtime. That means that every minute costs 30 cents. Think about that the next time you have a chat in the back for 10 minutes! If the saw is 20 percent faster, you should be saving six cents a frame in labor. If you’re framing 8,000 pictures a month, that would be a savings of \$480 a month.

If a new saw were to cost \$15,000, the monthly payment on a five-year note (including interest) would probably be about \$300 per month. It would appear that you are making \$180 a month, and that jumps to \$480 when the saw is paid off in five years. In addition, I presume the maintenance will be less than for the old saw.

Wait! There’s a bonus! If you buy the saw at the right time, there could be a tax advantage. For instance, if you bought the saw on December 31, you would be able to deduct an entire year’s worth

of depreciation, which in this case would probably be a fifth of the saw price or \$3,000. By doing that, you are probably saving about \$1,000 in income taxes because your profit has “dropped” \$3,000. You haven’t even paid for any part of the machine yet. By the time you pay your taxes in April, that \$1,000 you saved would have made the first three payments of the saw. Cash flow wise, the saw was free during those months courtesy of Uncle Sam. Keep in mind that during the last year of payments, you will have used up all of your deductions, though you will still be paying for the machine. It’s always good to take the deductions as soon as possible.

But there is one caveat: if the saw represents more than 40 percent of your capital expenditures for the year (machinery, cars, computers, etc.), you cannot deduct a full year of depreciation if you wait until the last minute—only six months’ worth. If you didn’t spend enough in the first three quarters, you can buy it before the

end of September and get a whole year’s worth of deductions—again, a good thing.

At the end of the day, accelerating your tax savings will not make or break you. But it would be poor tax planning to not consider timing your purchases if it benefits you.

Unlike some things, I didn’t make this up. It’s from the Internal Revenue Service codebook. As far as timing purchases, I’m not the only one who does this. Good companies do tax planning. Hopefully, your accountant has talked to you about this. If not, what else aren’t they telling you? ■

Jay Goltz owns Artists’ Frame Service in Chicago, which employs over 80 people at its main framing operation. He has received many business honors and is known for his straight talk on succeeding in business.

Let’s do the math:

MONTHLY CASH FLOW

	Old Saw	New Saw
Labor	\$2,400	\$1,920
Saw Payment	\$0	\$300
Sub-Total	\$2,400	\$2,220
With Tax Break*	\$0	(\$83.33)
Total	\$2,400	\$2,136.67

**Based on a depreciation of \$3,000 a year, the tax savings would be about \$1,000 a year or \$83.33 a month for the first five years.*