
Q. I'm thinking of starting a seasonal business. Are there any tax or financial wrinkles that I need to be aware of?

As summer ends, many seasonal business owners face a series of financial concerns, paramount of which is did they create enough cash flow to carry them through the off-season? Many fixed expenses, such as rent, real estate taxes, insurance and utilities continue throughout the year, so the business owner has to decide if staying open during the off-season, possibly on a reduced basis, can generate enough revenue to offset additional operating costs, or if shutting down will minimize the cash requirements. The business owner must also consider whether he/she can secure a workforce to support operations. (That is, did the Jet Ski rental staff go back to college?) Seasonal businesses must have a greater focus on inventory controls to ensure there is enough on hand to sell, but not too much that may spoil, go out of style or cost money to store during the off-season.

Other financial considerations may involve the cost-benefit analysis of retaining experienced employees versus the cost to retrain new ones for the next season. For example, in New Jersey, any unemployment benefits paid to ex-employees can have a detrimental effect on the business experience rating, which in turn increases the unemployment tax rate the company pays in the future.

The off-season is usually a time for the business to make repairs or improvements to its facilities and equipment, complete annual education or licensing requirements, or possibly revise the marketing plan. If the seasonal cash flow was insufficient, how much can/should the company borrow? Can the business negotiate reduced payments during the slow periods for rent, equipment leases and insurance?

Tax issues and compliance costs also continue during the off-season; quarterly payroll and sales tax returns must still be filed even if there is no activity. Most small seasonal businesses operate as pass-thru entities (S corps, LLCs), whereby the owners are taxed personally on the profits of the business. Here, the business owner must pay estimated taxes during the year based on the income earned during that period. Although the income is seasonal, the Internal Revenue Service (IRS) assumes the income is earned evenly during the year, so it is incumbent upon the taxpayer to file Form 2210 with his/her personal return to indicate the actual amounts and periods during the year when the income was generated. IRS Publication 505 offers examples and worksheets. Many seasonal businesses will use the off-season to upgrade equipment. Current IRS regulations allow for full depreciation of up to \$250,000 of certain new assets acquired during the year, however the assets must be placed in service before the end of the year to qualify. The definition of "placed in service" and, therefore, the timing of the deduction, could be an issue. The business might also be able to take advantage of regulations that allow for the delay of making employer contributions to certain types of retirement plans, possibly long enough until the next season when cash flow picks up again.

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