
Certified Public Accountants

Dear Client:

As this newsletter goes out to you, we are baffled at the fact that Congress has not acted to extend many of the provisions which expired at the end of 2013. This has kept both taxpayers and tax planners in a constant state of confusion throughout the year trying to plan on “what-if” the law stays as is and “what-if” the old laws are reinstated. This situation is not new to those of us who have been around awhile. It is nevertheless just as frustrating each year we are in this circumstance. It seems that each time Congress can’t agree on things, the tax laws get to play the swing vote. That being said, there are things we do know and some things that still might be. Our past two newsletters focused on individual tax planning. This issue will focus on business tax planning.

Utilizing Code Section Expensing and Bonus Depreciation

Many business owners are familiar with the benefits of Code Sec. 179 expensing and bonus depreciation. For tax years beginning in 2012 and 2013, the Code Sec. 179 dollar limitation was \$500,000 (indexed for inflation) and the investment limitation was \$2 million (indexed for inflation). Also, for tax years beginning in 2012 and 2013, taxpayers could elect to treat up to \$250,000 of qualified real property as Code Sec. 179 property. In addition, Code Sec. 179 expensing was allowed for off-the-shelf computer software.

These enhanced amounts expired after 2013.

We have been anticipating these provisions to be extended, but thus far, they have not. Therefore, under current law, Code Section 179 is limited to a deduction of only \$25,000 and is completely phased out once your total fixed assets placed in service for the year exceeds \$200,000.

Similarly, bonus depreciation has generally expired under current law. Bonus depreciation applied to qualified property acquired after December 31, 2007 and placed in service before January 1, 2014 (January 1, 2015 for certain property with a longer production period and certain noncommercial aircraft). Bonus depreciation could be extended for two years (with retroactive application for 2014). If bonus depreciation is extended, a 50 percent bonus depreciation allowance is the most likely percentage applied to new assets placed in service.

Uncertainty over the ultimate fate of enhanced Code Sec. 179 expensing and bonus depreciation impacts 2014 year-end planning, particularly as business owners contemplate purchases of equipment and supplies. Businesses considering qualified purchases need to weigh the benefits of making these purchases before year-end or postponing these purchases until after 2014. Because enhanced Code Sec. 179 expensing and bonus depreciation are likely to be extended (and made retroactive to January 1, 2014), businesses may be able to take advantage of these incentives in 2014 and 2015.

Repair and Capitalization Regulations

In prior articles, we have gone over some of the details regarding whether to expense or capitalize certain costs. Congress finalized these regulations during 2014 and taxpayers must comply with the regulations on their 2014 tax returns. For most taxpayers, this means filing for at least one (in most cases multiple) change in accounting method in order to comply with these new regulations.

One of the provisions allows for businesses to write-off materials and supplies that cost \$200 or less. If the company has a written policy in place *at the beginning of the year*, they can expense up to \$500 per item, and if they have an audited financial statement, up to \$5,000 per item. If you do not currently have a policy in place, we have a [sample policy](#) that you can adopt. We recommend that you get this policy in place as soon as possible.

Other provisions relate to an allowance for expensing routine maintenance on real property and special favorable elections for small taxpayers to immediately deduct improvement costs on real property. The new regulations are quite extensive and complex. Therefore, we will be looking at more detail during your tax return preparation to ensure that we are properly deducting versus capitalizing costs.

Gearing up for Affordable Care Act requirements

The health care reform law affects every business in some way. Small employers (employers with fewer than 50 full-time employees, including full-time equivalent employees) are exempt from the Affordable Care Act's employer mandate. Mid-size and larger businesses fall under the employer mandate and other requirements; however, mid-size employers are exempt from the employer mandate for 2015. Employers qualify as mid-size if they employ on average at least 50 full-time employees, including full-time equivalents, but fewer than 100 full-time employees, including full-time equivalents. Mid-size employers also must satisfy other requirements to qualify for the transition relief. Under current rules, transition relief is only available for 2015 but it could be extended.

Business owners need to plan for how seasonal and other workers may affect their liability for the employer mandate. Seasonal workers, on-call employees, student workers, and others must be taken into account to determine the number of the employer's full-time employees. The rules are complex but they cannot be ignored.

Mid-size and larger businesses are responsible for new information reporting requirements under Code Sec. 6056. These employers must tell the IRS if they offer health insurance to employees, among other criteria. The Code Sec. 6056 reporting requirements are effective for health insurance coverage offered, or not offered, in 2015. Small employers that are exempt from the employer mandate are also exempt from Code Sec. 6056 reporting.

Owners of small businesses should not overlook a tax credit that helps offset the cost of providing health insurance to employees. The small employer must have fewer than 25 full-time equivalent employees (FTEs) for the tax year; average annual wages of its employees for the



year must be less than \$50,000 per FTE; and the employer must pay the premiums under a qualifying arrangement. If the number of FTEs exceeds 10 or if average annual wages exceed \$25,000, the amount of the credit is reduced until it phases-out. Beginning in 2014, employers must purchase their insurance from an exchange program in order to qualify for the credit.

Expired Provisions

Just a few of the expired provisions that business owners need to be aware of:

- Research Tax Credit
- 100% Gain Exclusion from the Sale of Small Business Stock Acquired After 2013
- Work Opportunity Credit
- Recognition Period for S Corporation Built-in Gains
- Credit for Electricity Produced from Renewable Resources
- Energy Efficient Appliance Credit for Manufacturers
- Incentives for Biodiesel, Renewable Diesel and Alternative Fuels
- 15-year Straight Line Recovery for Qualified Leasehold Improvements, Qualified Restaurant Property, and Qualified Retail Improvements

If you have any questions or concerns regarding how the above information might impact your business, or to discuss other year-end planning strategies, please contact our office at 775-882-3201.



