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2014 Year-End Tax Planning For Businesses

Looking back over 2014, many business owners saw a welcomed uptick in sales and growth. This growth has important tax consequences and business owners should now take time to review their year-end tax planning. For many business owners, this is a routine project. Others may have done some year-end planning in past years but not in recent years. Year-end tax planning presents the opportunity to explore situations that could maximize tax savings and should not be overlooked. This communication explores some of the year-end planning considerations that affect businesses in general. Of course, every business is unique. Our office can review your business and together we can design a year-end tax strategy.

Utilizing 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. However, these enhancements are likely to be extended by Congress although the timeframe is uncertain.

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.

Uncertainly 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 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.

Planning with expired business tax breaks

Every two years, many temporary business tax breaks come up for renewal and 2014 is no exception. The extension of many of these incentives in the American Taxpayer Relief Act of 2012 (ATRA) has expired. The research tax credit, special expensing rules for film and television productions, the credit for employer-provided child care facilities and services, and others expired after December 31, 2014. Like enhanced Code Sec. 179 expensing and bonus depreciation, it appears that taxpayers will not know the fate of these incentives until late in 2014 or in early 2015. Congress could, as it has in the past, renew these incentives in a comprehensive bill or it could proceed piecemeal.

Along with the business incentives highlighted above, other business tax breaks also expired after 2013, including:

Work Opportunity Tax Credit

Employer wage credit for activated military reservists

Railroad track maintenance credit

Recognition period for S corporation built-in gains

Indian employment credit

Accelerated depreciation for business property on Indian reservations

Election to expense mine safety equipment

Credit for new energy efficient homes

Enhanced deduction for charitable contributions of food inventory

Empowerment zone tax benefits

Credit for electricity produced from renewable resources

Cellulosic biofuel producer credit

Energy efficient appliance credit for manufacturers

Incentives for biodiesel, renewable diesel and alternative fuels

1)-year straight line recovery for qualified leasehold improvements

1)-year straight line recovery for qualified restaurant property

})-year straight line recovery for qualified retail improvements

The expired tax breaks affect a wide variety of businesses. Businesses may have utilized one or more of the expired tax incentives in past years. Some past strategies may continue to be valuable. Our office can help ascertain the effectiveness of these strategies at year-end 2014.

Gearing up for Affordable Care Act requirements

Few laws have had, and continue to have, such an impact on tax planning as the Affordable Care Act. The health care reform law affects every business in some way. While 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, small business should not overlook other provisions that could generate tax savings. Mid-size and larger businesses do 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.

myRAs

The Treasury Department is expected to unveil a new retirement savings arrangement before the end of 2014. The new accounts are called *myRA*. These accounts will be offered through employers that elect to participate. Account holders will be able to build savings for 30 years or until their *myRA* reaches $15,000, whichever comes first. After that, *myRA* balances will transfer to private-sector Roth IRAs. Small business owners should explore the benefits of offering *myRAs* to their employees. As more details are released, business owners can weigh the value of these new accounts. At the same time, business owners can explore other retirement savings vehicles, including SIMPLE IRA plans, SEP plans, and payroll deduction IRAs.

If you have any questions about the year-end planning considerations we have reviewed, please contact our office.