THE SMALLBIZ BUILDER

PADGETT — THE SMALL BIZ PROS

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2014 Business Year-End Tax Planning

Tax planning may be challenging for businesses this year as many of the federal tax provisions that expired on December 31, 2013 have not yet been extended by Congress. In addition to the uncertainty of the tax breaks, certain provisions of the ACA are scheduled to take effect January 1, 2015. You can be proactive at heading-off these challenges by reviewing the information below and then discussing the relevant issues with your local Padgett office.

Projecting your business' income for this year and next can allow you to time income and deductions to your advantage. In general, it's better to defer tax, but not always, so consider the following:

- **Defer income**: Cash basis businesses can postpone billing for products and services, while accrual basis businesses can delay shipping of products or delivering services. Also consider deferring a debt-cancellation event until 2015 or disposing of a passive activity in 2014 if doing so allows a deduction of suspended passive activity losses.
- **Accelerate deductible expenses**: Both cash and accrual basis taxpayers can charge expenses on a credit card and deduct them in the year charged, regardless of when the credit card bill is paid.
- **Take the opposite approach**: Accelerating income and deferring expenses may help prevent your business from moving into a higher tax bracket next year.

Although the business property expensing limit and phase-out threshold are greatly reduced for 2014, *unless legislation changes this option*, don't rule out making expenditures that qualify for this option. Before making major purchases, consult with your local Padgett office for the latest information.

- **Sec 179 expensing election** – As of now the Sec 179 expensing limit for 2014 is $25,000, and the investment-based reduction in the dollar limitation starts to take effect when property placed in service in the tax year exceeds $200,000.
- **50% bonus depreciation** – This additional first-year depreciation allowance expired on Dec 31, 2013, with a few exceptions, but Congress may revive bonus depreciation.
- **Accelerated depreciation** – The break allowing a shortened recovery period of 15 years, rather than 39 years, for qualified lease improvement, restaurant and retail improvement also expired on Dec 31, 2013…but may be revived.
- **De minimis safe harbor election** – Businesses may be able to take advantage of an election to expense the costs of inexpensive assets and materials and supplies, assuming these costs don't have to be capitalized under UNICAP rules. To qualify for the election, the cost of a unit of property can't exceed $5,000 if the taxpayer has an applicable financial statement (AFS), i.e. an audited financial statement along with an independent CPA's report. If there is no AFS, the cost of a unit of property can't exceed $500. If UNICAP rules don't apply to your business, then consider purchasing such items before the end of the year.

Other tax planning strategies and year-end tips for small businesses include:

- If you own an interest in a partnership or S corporation consider whether you need to increase your basis in the business, so you can deduct losses this year.
- Consider building good-will by giving money, inventory, or other property through a tax

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deductible donation.
- Consider establishing or funding a retirement plan for the benefit of owners and other employees.
- Conduct an annual review of all business contracts, including insurance policies, vendor contracts, and rental agreements.
- Review your client list to determine if fees should be adjusted or if clients should be fired.
- Remember to take a year-end inventory count.
- Examine your businesses financials to identify areas of strengths and weaknesses.
- Evaluate your goals from last year and develop a strategy for the upcoming year.

Impact of the Affordable Care Act Provisions (ACA) on Businesses in 2015

While many provisions of the ACA were implemented at the beginning of 2014, the "Pay or Play" provision is scheduled to take effect as of January 1, 2015. The provisions impose a penalty on applicable large employers (ALE) with at least 100 full-time employees in 2015, dropping to 50 in 2016. The "Pay or Play" penalty applies if any the following occur:

- ALE fails to offer minimum essential coverage to their full-time employees and their dependents.
- ALE offers coverage, but it is either not affordable or does not provide minimal essential coverage.
- At least one-full time employee purchases coverage through the exchange and receives a premium tax credit.

If your business may be approaching the employee thresholds and could be subject to the penalties, review your workforce and coverage offerings now to ensure a qualified health plan is in place at the beginning of 2015.

Small Employers might be eligible for a larger health care credit in 2014 if they have fewer than 25 full-time equivalent employees, an average annual wage of less than $50,800 (for 2014), and purchased coverage through Small Business Health Option Program (SHOP). The maximum credit has increased from 35% to 50% of group health coverage premiums paid by the employer and can only be taken for two consecutive years. If you're eligible for the credit this year, but think it could provide a greater benefit in the future, refrain from taking it now.

Regardless of whether your business qualifies as a small employer or an ALE, all employers must provide a "Notification of Health Insurance Marketplace" to each new employee within 14 days of the employee's start date. For more information regarding the required content of this notice, please consult with your local Padgett office.