Arthur Lander C.P.A., P.C.
A professional corporation

300 N. Washington St. #104
Alexandria, Virginia 22314
phone: (703) 486-0700
fax: (703) 527-7207

Year-End Tax Planning for Businesses

Dear Clients,

While the fate of several business-related tax extenders such as Research & Development tax credits, bonus depreciation, and Section 179 expensing that expired at the end of 2014 is uncertain, there are still a number of end of year tax planning strategies businesses can use to reduce their tax burden for 2015.

Deferring Income

Businesses using the cash method of accounting can defer income into 2016 by delaying end-of-year invoices so payment is not received until 2016. Businesses using the accrual method can defer income by postponing delivery of goods or services until January 2016.

Purchase New Business Equipment

Section 179 Expensing. Business should still take advantage of Section 179 expensing this year for a couple of reasons. First, is that in 2015 businesses can elect to expense (deduct immediately) the entire cost of most new equipment up to a maximum of $25,000 for the first $200,000 of property placed in service by December 31, 2015. Keep in mind that the Section 179 deduction cannot exceed net taxable business income. In addition, unless Congress reauthorizes it, the bonus depreciation expired at the end of 2014 and is not available for 2015.

While most businesses follow a calendar year, for those that don't there is an exception to the $25,000 cap that allows those businesses to take advantage of the $500,000 Section 179 benefit. However, only businesses whose calendar year begins in 2014 and ends in 2015 can take advantage of this.

Qualified property is defined as property that you placed in service during the tax year and used predominantly (more than 50 percent) in your trade or business. Property that is placed in service and then disposed of in that same tax year does not qualify, nor does property converted to personal use in the same tax year it is acquired.

Note: Many states have not matched these amounts and, therefore, state tax may not allow for the maximum federal deduction. In this case, two sets of depreciation records will be needed to track the federal and state tax impact.

Please contact the office if you have any questions regarding qualified property.

Timing. If you plan to purchase business equipment this year, consider the timing. You might be able to increase your tax benefit if you buy equipment at the right time. Here's a simplified explanation:

Conventions. The tax rules for depreciation include "conventions" or rules for figuring out how many months of depreciation you can claim. There are three types of conventions. To select the correct convention, you must know the type of property and when you placed the property in service.

1. The half-year convention: This convention applies to all property except residential rental property, nonresidential real property, and railroad gradings and tunnel bores (see mid-month convention below) unless the mid-quarter convention applies. All property that you begin using during the year is treated as "placed in service" (or "disposed of") at the midpoint of the year. This means that no matter when you begin using (or dispose of) the property, you treat it as if you began using it in the middle of the year.

Example: You buy a $40,000 piece of machinery on December 15. If the half-year convention applies, you get one-half year of depreciation on that machine.

2. The mid-quarter convention: The mid-quarter convention must be used if the cost of equipment placed in service during the last three months of the tax year is more than 40 percent of the total cost of all property placed in service for the entire year. If the mid-quarter convention applies, the half-year rule does not apply, and you treat all equipment placed in service during the year as if it were placed in service at the midpoint of the quarter in which you began using it.

3. The mid-month convention: This convention applies only to residential rental property, nonresidential real property, and railroad gradings and tunnel bores. It treats all property

placed in service (or disposed of) during any month as placed in service (or disposed of) on the midpoint of that month.

If you're planning on buying equipment for your business, call the office and speak to a tax professional who can help you figure out the best time to buy that equipment and take full advantage of these tax rules.

Other Year-End Moves to Take Advantage Of

Small Business Health Care Tax Credit. Small business employers with 25 or fewer full-time-equivalent employees (average annual wages of $51,600 in 2015) may qualify for a tax credit to help pay for employees' health insurance. The credit is 50 percent (35 percent for non-profits).

Business Energy Investment Tax Credit. Business energy investment tax credits are still available for eligible systems placed in service on or before December 31, 2016, and businesses that want to take advantage of these tax credits can still do so.

Business energy credits include solar energy systems (passive solar and solar pool-heating systems excluded), fuel cells and microturbines, and an increased credit amount for fuel cells. The extended tax provision also established new credits for small wind-energy systems, geothermal heat pumps, and combined heat and power (CHP) systems. Utilities are allowed to use the credits as well.

Repair Regulations. Where possible, end of year repairs and expenses should be deducted immediately, rather than capitalized and depreciated. Small businesses lacking applicable financial statements (AFS) are able to take advantage of de minimis safe harbor by electing to deduct smaller purchases ($500 or less per purchase or per invoice). Businesses with applicable financial statements are able to deduct $5,000. Small business with gross receipts of $10 million or less can also take advantage of safe harbor for repairs, maintenance, and improvements to eligible buildings. Please call if you would like more information on this topic.

Partnership or S-Corporation Basis. Partners or S corporation shareholders in entities that have a loss for 2015 can deduct that loss only up to their basis in the entity. However, they can take steps to increase their basis to allow a larger deduction. Basis in the entity can be increased by lending the entity money or making a capital contribution by the end of the entity's tax year.

Caution: Remember that by increasing basis, you're putting more of your funds at risk. Consider whether the loss signals further troubles ahead.

Section 199 Deduction. Businesses with manufacturing activities could qualify for a Section 199 domestic production activities deduction. By accelerating salaries or bonuses attributable to domestic production gross receipts in the last quarter of 2015, businesses can increase the amount of this deduction. Please call to find out how your business can take advantage of Section 199.

Retirement Plans. Self-employed individuals who have not yet done so should set up self-employed retirement plans before the end of 2015. Call today if you need help setting up a retirement plan.

Dividend Planning. Reduce accumulated corporate profits and earnings by issuing corporate dividends to shareholders.

Budgets. Every business, whether small or large should have a budget. The need for a business budget may seem obvious, but many companies overlook this critical business planning tool.

A budget is extremely effective in making sure your business has adequate cash flow and in ensuring financial success. Once the budget has been created, then monthly actual revenue amounts can be compared to monthly budgeted amounts. If actual revenues fall short of budgeted revenues, expenses must generally be cut.

Tip: Year-end is the best time for business owners to meet with their accountants to budget revenues and expenses for the following year.

If you need help developing a budget for your business don't hesitate to call.

What Employers Need to know about the ACA

The healthcare law contains tax provisions that affect employers. The size and structure of a workforce--small or large--helps determine which parts of the law apply to which employers. Calculating the number of employees is especially important for employers that have close to 50 employees or whose workforce fluctuates during the year.

The number of employees an employer has during the current year determines whether it is an applicable large employer for the following year. Applicable large employers (ALEs) are generally those with 50 or more full-time employees or full-time equivalent employees. Under the employer shared responsibility provision, ALEs are required to offer their full-time employees and dependents affordable coverage that provides minimum value. Employers with fewer than 50 full-time or full-time equivalent employees are not applicable large employers.

Employers with Fewer than 50 Employees

SHOP Marketplace Eligibility

Employers with fewer than 50 employees can purchase insurance through the Small Business Health Options Program (SHOP) Marketplace.

Information Reporting--Self-Insured Employers

All employers, regardless of size, that provide self-insured health coverage must file an annual return for individuals they cover, and provide a statement to responsible individuals.

The first information reporting returns are due to be filed in 2016 for 2015.

Credits

Employers may be eligible for the small business health care tax credit if they:

1. cover at least 50 percent of employees' premium costs

2. have fewer than 25 full-time equivalent employees with average annual wages of less than $50,000

3. purchase their coverage through the Small Business Health Options Program.

Employers with fewer than 50 full-time employees or full-time equivalent employees are not subject to the employer shared responsibility provisions.

Employers with 50 or More Employees

SHOP Marketplace Eligibility

Employers with exactly 50 employees can purchase insurance through the Small Business Health Options Program (SHOP) Marketplace.

Information Reporting

All employers including applicable large employers that provide self-insured health coverage must file an annual return for individuals they cover, and provide a statement to responsible individuals.

Applicable large employers must file an annual return--and provide a statement to each full-time employee--reporting whether they offered health insurance, and if so, what insurance they offered their employees.

The first information reporting returns are due to be filed and furnished in 2016 for 2015.

Payments

In general, an applicable large employer will be subject to a payment if the employer does not offer affordable coverage that provides "minimum" value to its full-time employees and their dependents, and one or more full-time employees gets a premium tax credit.

Various forms of transition relief are available for 2015, including for applicable large employers with fewer than 100 full-time employees, including full-time equivalent employees. For additional details, please call the office.

How the Health Care Law Affects Aggregated Companies

The Affordable Care Act applies an approach to common ownership that also applies for other tax and employee benefit purposes. This longstanding rule generally treats companies that have a common owner or similar relationship as a single employer.

These are aggregated companies. The law combines these companies to determine whether they employ at least 50 full-time employees including full-time equivalents.

If the combined employee total meets the threshold, then each separate company is an applicable large employer. Each company--even those that do not individually meet the threshold--is subject to the employer shared responsibility provisions.

These rules for combining related employers do not determine whether a particular company owes an employer shared responsibility payment or the amount of any payment. The IRS will determine payments separately for each company.

Questions? Don't hesitate to call.

<u>Individual Shared Responsibility Provision</u>

The Affordable Care Act includes the individual shared responsibility provision that requires you, your spouse, and your dependents to have qualifying health insurance for the entire year, report a health coverage exemption, or make a payment when you file.

<u>Who is subject to this provision?</u>

All U.S. citizens living in the United States, including children, senior citizens, permanent residents and all foreign nationals are subject to the individual shared responsibility provision.

Children are subject to the individual shared responsibility provision.

• Each child must have minimum essential coverage or qualify for an exemption for each month in the calendar year. Otherwise, the adult or married couple who can claim the child as a dependent for federal income tax purposes will generally owe a shared responsibility payment for the child.

Senior citizens are subject to the individual shared responsibility provision.

• Both Medicare Part A and Medicare Part C (also known as Medicare Advantage) qualify as minimum essential coverage.

All permanent residents and all foreign nationals who are in the United States long enough during a calendar year to qualify as resident aliens for tax purposes are subject to the individual shared responsibility provision.

• Foreign nationals who live in the United States for a short enough period that they do not become resident aliens for federal income tax purposes are not subject to the individual shared responsibility payment even though they may have to file a U.S. income tax return.

•Individuals who are not U.S. citizens or nationals and are not lawfully present in the United States are exempt from the individual shared responsibility provision. For this purpose, an immigrant with Deferred Action for Childhood Arrivals status is considered not lawfully present and therefore, is eligible for this exemption even if he or she has a social security number. Claim coverage exemptions on Form 8965, Health Coverage Exemptions.

•U.S. citizens living abroad are subject to the individual shared responsibility provision.

•However, U.S. citizens who are not physically present in the United States for at least 330 full days within a 12-month period are treated as having minimum essential coverage for that 12-month period. In addition, U.S. citizens who are bona fide residents of a foreign country or countries for an entire taxable year are treated as having minimum essential coverage for that year.

•All bona fide residents of the United States territories are treated by law as having minimum essential coverage.

Call Arthur Lander, CPA, PC with any questions

These are just a few of the year-end planning tax moves that could make a substantial difference in your tax bill for 2015. If you'd like more information about tax planning for 2016, please call to schedule a consultation to discuss your specific tax and financial needs, and develop a plan that works for your business.

Have a happy and safe holiday season!

Best regards,

Art Lander