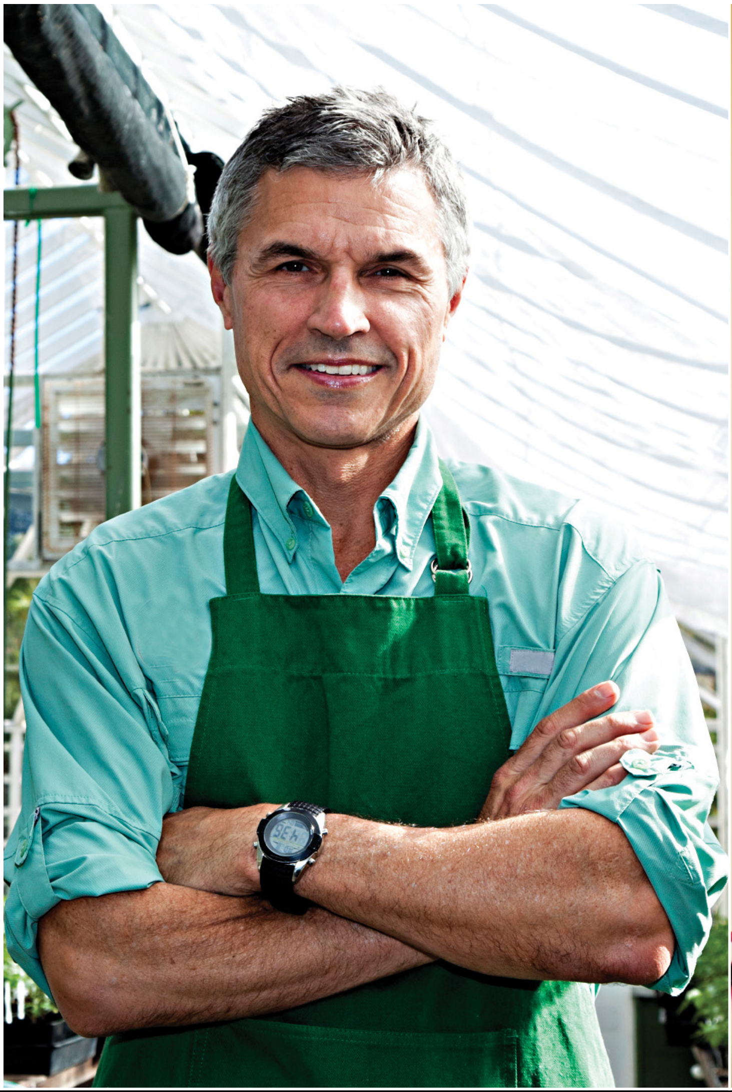

Tax Law Snapshot for Small Businesses

2014 Filing Season

As the economy recovers, you want to position your business for growth. By combining unrivaled education, training and experience and adherence to rigorous professional standards, your CPA can help you do just with that, with trusted tax advice and service during tax season and throughout the year.

The American Taxpayer Relief Act of 2012 (ATRA) made important changes that will affect your tax liability and business decisions, both now and in the future. In addition to extending a number of tax provisions that had lapsed or were set to expire, the ATRA increased tax rates and curtailed deductions for many high-income taxpayers.

These changes affect millions of taxpayers, as will select provisions of the Patient Protection and Affordable Care Act of 2010. Many of the tax laws that pertain to individuals also will affect small business owners, particularly those who are set up as pass-through entities such as an S corporation or LLC.

Tax Law Snapshot for the 2014 Filing Season provides an overview of key tax law provisions that may affect your 2013 tax return. Information is current as of Dec. 10, 2013.

While many tax provisions, including the recent tax law changes, can benefit your business, understanding and taking advantage of the full range of the latest tax laws can be a daunting task. Your CPA can ensure that you maximize your tax benefits by reviewing your overall financial position and providing you with expert accounting, business and tax planning advice. By combining unrivaled education, training and experience and adherence to rigorous professional standards, your CPA provides trusted advice and services for your small business during tax season and throughout the year.

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1. BUSINESS EXPENSES

The ATRA extended two major business tax benefits through 2013. Both the Section 179 and bonus depreciation deductions provide immediate tax relief, increasing cash flow and reducing the after-tax costs of investing in new business property.

Rather than capitalizing and depreciating the cost of the property over time, the Section 179 deduction allows a small business to immediately write off up to $500,000 of eligible tangible business property, as well as up to $250,000 of qualified real property.

The larger deduction applies to most tangible personal business property placed in service during the tax year, including items such as:

- Computers
- Office furniture
- Vehicles and machinery
- Off-the-shelf computer software

Businesses that acquire $2 million or more in new property in a single year will either have a reduced deduction or may not qualify for this benefit.

If the entire cost of business property cannot be immediately deducted, the remaining cost may qualify for bonus depreciation. Bonus depreciation provides a deduction of up to 50% of the cost in the first year the asset is placed in service, with any remaining basis subject to regular depreciation rules. Determining how best to maximize these tax benefits depends on individual business circumstances. Ask your CPA what option is best for your business.

2. START-UP AND ORGANIZATIONAL EXPENSES

New business owners typically incur a wide range of costs in the launch of their business. Both start-up and organizational costs are eligible to be deducted in the year a business is started. These deductions promote entrepreneurship and make additional capital available to business owners since they reduce your net taxes owed.

Start-up costs include expenses incurred when investigating whether to start or buy a business, market analysis and feasibility studies, advertising, consultant fees, attorney fees and accountant fees paid prior to the start or purchase of the business. The tax law allows business owners to deduct a portion of these costs in the year the business starts ($10,000 in 2013), as well as a portion over time (typically over 180 months).

Organizational costs (which are different from start-up costs) are incurred in the setup of a C or S corporation or a partnership and can be deducted under the same rules as business start-up costs. Your CPA can help ensure that you maximize the deduction available to you.

3. NEW HEALTH CARE LAW REQUIREMENTS

The Patient Protection and Affordable Care Act of 2010 requires "large" employers to offer health insurance to their employees or be subject to a financial penalty. While the penalty provisions don't apply until 2015, business owners may need to begin planning now in order to avoid the penalties. The law's definition of a large employer is a business that employs at least 50 full-time equivalent employees during the preceding calendar year (2014).

You may be surprised to learn that full-time employees are individuals who work at least 30 hours per week.

Key Fact: In addition, in determining whether an employer has met the 50-employee threshold, part-time workers must be counted, as well as employees who work for related entities. Your CPA can help determine whether your workforce qualifies you as a large business.

4. CHOICE OF ENTITY — WHAT SHOULD YOU BE?

When setting up a new business, choosing the right entity that meets your business and tax needs is crucial to minimizing your taxes and efficiently running your business.

Tax issues such as double taxation and differences between the corporate and individual income tax rates have made various flow-through entities (sole proprietorships, partnerships, LLCs and S corporations) very popular with most small business owners. However, the new 39.6% individual tax bracket and 3.8% Medicare surtax on high-income earners could significantly erode a pass-through's tax benefits.

Changing organizational form requires consideration of both tax and non-tax issues and has many potential tax traps that must be managed. Factors to consider include legal liability issues for business owners, the ability of a company to distribute profits to owners in a tax advantaged manner (salaries, rents, interest and dividends), self-employment taxes and payroll taxes. Ask your CPA to guide you on the best choice for your business.

5. SAVING FOR RETIREMENT

Saving for retirement is a key consideration for many small business owners and self-employed individuals. Common options for small business owners include: IRA-based plans such as Savings Incentive Match for Employees (SIMPLE) and Simplified Employee Pension (SEP) plans, as well as profit-sharing plans and a variety of 401(k) plans.

Key Fact: SEP IRAs can even be set up after year's end, as late as the due date (including extensions) of your business income tax return for 2013.

With traditional plans, employers get a tax deduction for contributions, and employees may be allowed to make pre-tax contributions and defer taxes on income until distribution. In Roth plans, employees do not get tax deductions for contributions, but qualified distributions and withdrawals are tax-free. In addition, assets held in qualified plans generally are protected from creditors of both employees and employers. However, these plans are heavily regulated and include different contribution limits and matching requirements.

While Congress provides many tax incentives for retirement saving, understanding the options and determining the most appropriate retirement plan for your business can be overwhelming. Your CPA can determine the maximum contributions allowed for your existing plans and help you identify and establish the best plan for your small business.

6. BUILT-IN-GAINS AND SMALL BUSINESS STOCK

The ATRA extended the 100% exclusion for gains on qualified small business stock to stock purchased before Jan. 1, 2014. However, the stock must be held for more than five years. If you purchased small business stock after Sept. 27, 2010, and before Jan. 1, 2014, and are contemplating disposing of the stock, talk to your CPA first to see if you qualify for the exclusion.

The ATRA also extended the availability of a reduced recognition period of five years for dispositions of property from S corporations with built-in gains (from previous years as a C corporation). If you disposed of property from your S corporation during the year, your CPA can help determine if the built-in-gains tax applies.

7. STATE AND LOCAL TAX ISSUES

State tax laws add an additional layer of complexity to many tax planning decisions, particularly for businesses that operate in or have employees in multiple states. Businesses that provide services, sell products or otherwise have a presence in more than one state may be subject to tax withholding, filing and payment requirements in many (although not necessarily all) of those states. In addition, sales tax rules vary widely state to state and on the types of products or services to which they apply.

Key Fact: Many states disallow deductions that can be taken on a federal return and may tax income that is exempt from tax for federal purposes. For example, some states have more restrictive net operating loss (NOL) carryover rules than the federal government and do not allow favorable tax treatment for long-term capital gains.

States also have their own set of credits and deductions that can help lower your taxes. Your CPA can help you take advantage of opportunities and avoid the pitfalls that are common in multi-state businesses.

8. 3.8% TAX ON NET INVESTMENT INCOME

The new 3.8% tax on net investment income is in effect for the 2013 tax year. This tax applies to high-income individuals with net investment income whose modified adjusted gross income exceeds certain threshold amounts ($250,000 for married couple filing joint returns and $200,000 for single taxpayers). Net investment income may include income such as interest, dividends, rents and passive income that the business owner receives from a partnership, S corporation or other pass-through entity.

Planning payments and distributions to owners of small businesses is critical in order to minimize this tax. In addition, selling your business may result in net investment income subject to the tax. Your CPA can help determine if the tax applies to you in 2013 and provide suggestions to minimize its impact in 2014.

VALUE OF PROFESSIONAL ADVICE

You work hard to make your business thrive. You need a tax professional who understands how these provisions affect you, and can provide trusted advice and services during the tax season and throughout the calendar year. For tax and financial advice based on unmatched knowledge, experience and education, ask your CPA.

RESEARCH AND DEVELOPMENT CREDIT

Did you know that you can claim a tax credit for expenses incurred in the development of new, improved and more reliable products, processes and formulas? This often overlooked incentive is available to new and long established businesses, and for new and expanding research and development with new simplifications and benefits. The credit is equal to 20% of eligible expenditures in excess of a base amount and has been increased for businesses that acquire other companies. Businesses with little or no research and development spending may qualify for a 14% Alternative Simplified Credit.

9. NEW TAX RULES FOR BUYING OR IMPROVING PROPERTY

The IRS issued final regulations in September 2013 that clarifies when business owners can deduct the cost of acquiring, producing or repairing tangible property. For example, the costs of resurfacing a floor to keep the property in good condition would likely be deducted immediately, whereas the addition of a security system may need to be capitalized. Almost all businesses will be affected by the new regulations.

The good news is that taxpayers may deduct any single item whose cost does not exceed $500 per invoice or item. For taxpayers who file financial statements with the Securities Exchange Commission or state or federal agencies or have audited financial statements, the regulations allow *any* item up to $5,000 to be deducted if they have written expensing thresholds in place. While it is possible to file 2013 returns under this provision, a taxpayer must have had written procedures in place at the beginning of 2013.

Under another new rule, small business taxpayers may elect to expense improvements if the total amount paid for repairs, maintenance and improvements does not exceed the lower of $10,000 or 2% of the adjusted basis of the building.

While the regulations apply to tax years beginning in 2014, taxpayers may choose to follow selected provisions on their 2013 tax returns. Your CPA can help you understand the reach of the new rules and help you navigate the elections and other requirements.

10. HOME OFFICE DEDUCTION

Home office expenses generally are deductible if part of a business owner's personal residence is used regularly and exclusively as either the principal place of business or as a place to meet with patients, customers or clients. The IRS recently provided an optional safe-harbor method that makes it easier to determine the amount of deductible home office expenses. Starting in tax year 2013, the new rules allow taxpayers to deduct $5 per square foot of home office space (up to 300 square feet). Your CPA can help determine if a home office deduction is allowable and ensure that you get the largest tax deduction possible.

Information is current as of **Dec. 10 2013**.

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