

SMT & ASSOCIATES, INC.

TAX & ACCOUNTING SERVICES
FINANCIAL PLANNING - INVESTMENT SERVICES*

Year-end Tax Planning Letter - Businesses

Dear Client:

As with planning for individual income taxes, year-end 2013 tax planning could be profitable because timely action could help you take advantage of tax breaks that won't be around next year unless Congress acts to extend them. As in prior years, Congress likes to wait until the actual expiration date to actually make changes; in this case we could be looking at December 2014 until Congress acts. This will make tax planning for next year a bit more difficult.

For businesses, tax breaks that are available through the end of this year but won't be around next year unless Congress acts include:

- 50% bonus first-year depreciation for most new machinery, equipment and software;
- An extraordinarily high \$500,000 expensing limitation;
- The research tax credit;
- The 15-year write-off for qualified leasehold improvements, qualified restaurant buildings and improvements and qualified retail improvements.

We have compiled a checklist of additional actions based on current tax rules that may help you save tax dollars if you act before year-end. Not all actions will apply in your particular situation, but you will likely benefit from many of them. We can narrow down the specific actions that you can take once we meet with you to tailor a particular plan. In the meantime, please review the following list and contact us at your earliest convenience so that we can advise you on which tax-saving moves to make:

380 N. Terra Cotta Rd, Ste H, Crystal Lake, IL 60012 – Phone 815.788.5114 – Fax 815.788.5118

*Investment Advisor Representative: Steve Trojan, CPA. Securities offered through H.D. Vest Investment ServicesSM,
Member SIPC, Advisory services offered through H.D. Vest Advisory ServicesSM
6333 North State Highway 161, Fourth Floor, Irving, Texas 75038 (972) 870-6000

SMT & Associates is not a registered broker/dealer or independent investment advisory firm.

2013 Year-End Tax-Planning Moves for Businesses & Business Owners

- No matter which tax moves you make at year-end, you need to consider if you will be in a higher or lower tax bracket next year. Timing is an often overlooked part of tax planning, and the old adage “defer income, accelerate deductions” is not always wise. The following ideas follow this adage, but consider doing the opposite if you think your tax bracket may be lower in 2014.
- For cash-based businesses, consider deferring collections of income and pay off vendors by December 31, 2013 so your expenses can be deducted in 2013. Don't forget that payment of vendor invoices and making other purchases by year-end using a credit card are deductible in 2013 even if you don't pay off the credit card balance until next year.
- For C-corporations, take a year-end bonus to avoid or minimize the double taxation of profits inside the corporation. Also consider switching to an S-corporation.
- Businesses should consider making expenditures that qualify for the business property expensing option. For tax years beginning in 2013, the expensing limit is \$500,000 and the investment ceiling limit is \$2,000,000. And a limited amount of expensing may be claimed for qualified real property. However, unless Congress changes the rules, for tax years beginning in 2014, the dollar limit will drop to \$25,000, the beginning-of-phase out amount will drop to \$200,000, and expensing won't be available for qualified real property. The generous dollar ceilings that apply this year mean that many small and medium sized businesses that make timely purchases will be able to currently deduct most if not all their outlays for machinery and equipment. What's more, the expensing deduction is not prorated for the time that the asset is in service during the year. This opens up significant year-end planning opportunities.
- Businesses also should consider making expenditures that qualify for 50% bonus first year depreciation if bought and placed in service this year. This bonus write-off generally won't be available next year unless Congress acts to extend it. Thus, enterprises planning to purchase new depreciable property this year or the next should try to accelerate their buying plans, if doing so makes sound business sense.
- Nail down a work opportunity tax credit (WOTC) by hiring qualifying workers (such as certain veterans) before the end of 2013. Under current law, the WOTC won't be available for workers hired after 12/31/2013.
- Make qualified research expenses before the end of 2013 to claim a research credit, which won't be available for post-2013 expenditures unless Congress extends the credit.
- If you are self-employed and haven't done so yet, set up a self-employed retirement plan. A SEP IRA allows contributions as late as October 15th next year, for tax deductions on your 2013 return.
- Consider various moves you can make if you already have a retirement plan set up through your business (such as a 401(k) plan or SIMPLE IRA). Examples include maxing out on any

contribution limits before year-end and making year-end profit sharing contributions if you have such a plan that allows for this tax deduction.

- Depending on your particular situation, you may also want to consider deferring a debt-cancellation event until 2014, and disposing of a passive activity to allow you to deduct suspended losses.
- If you own an interest in a partnership or S corporation you may need to increase your basis in the entity so you can deduct a loss from it for this year.
- If you are a sole proprietor, C-corporation or partnership, consider the benefits that a different choice of entity could bring.

These are just some of the year-end steps that can be taken to save taxes. Again, by contacting us, we can tailor a particular plan that will work best for you.

Sincerely,

A handwritten signature in cursive script that reads "Steve Trojan".

Steve Trojan, CPA