S M T & A S S O C I A T E S, I N C.

T A X & A C C O U N T I N G S E R V I C E S
F I N A N C I A L P L A N N I N G – I N V E S T M E N T S E R V I C E S *

2014 Year-end Tax Planning Letter - Businesses

Dear Client :

Year-end tax planning is especially challenging this year because Congress has yet to act (what's new?) on a host of tax breaks that expired at the end of 2013. Some of these tax breaks could be retroactively reinstated and extended, but Congress may not decide the fate of these tax breaks until the very end of this year (and, possibly, not until next year).

For businesses, tax breaks that expired at the end of last year and may be retroactively reinstated and extended include:

- 50% bonus first year depreciation for most new machinery, equipment and software;
- the $500,000 annual expensing limitation ("Section 179 deduction");
- the research tax credit;
- the 15-year write-off for qualified leasehold improvement property, qualified restaurant property, and qualified retail improvement property.

By the way, if these tax breaks are indeed extended for 2014, this is certain to once again cause filing delays. The IRS and software vendors will need time to update tax forms and this will mean delayed filing until sometime in February or even March.

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 (or a family member) 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:

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

- Businesses should consider buying machinery and equipment before year end and, under the generally applicable “half-year convention,” thereby securing a half-year's worth of depreciation deductions for the first ownership year.
- Although the business property expensing option is greatly reduced in 2014 (unless legislation enhances this option for 2014), consider making expenditures that qualify for this option. For tax years beginning in 2014, the expensing limit 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.
- A corporation should consider accelerating income from 2015 to 2014 where doing so will prevent the corporation from moving into a higher bracket next year. Conversely, it should consider deferring income until 2015 where doing so will prevent the corporation from moving into a higher bracket this year.
- A corporation should consider deferring income until next year if doing so will preserve the corporation’s qualification for the small corporation alternative minimum tax (AMT) exemption for 2014. Note that there is never a reason to accelerate income for purposes of the small corporation AMT exemption because if a corporation doesn't qualify for the exemption for any given tax year, it will not qualify for the exemption for any later tax year.
- A corporation (other than a “large” corporation) that anticipates a small net operating loss (NOL) for 2014 (and substantial net income in 2015) may find it worthwhile to accelerate just enough of its 2015 income (or to defer just enough of its 2014 deductions) to create a small amount of net income for 2014. This will permit the corporation to base its 2015 estimated tax installments on the relatively small amount of income shown on its 2014 return, rather than having to pay estimated taxes based on 100% of its much larger 2015 taxable income.
- If your business qualifies for the domestic production activities deduction for its 2014 tax year, consider whether the 50%-of-W-2 wages limitation on that deduction applies. If it does, consider ways to increase 2014 W-2 income, e.g., by bonuses to owner-shareholders whose compensation is allocable to domestic production gross receipts. Note that the limitation applies to amounts paid with respect to employment in calendar year 2014, even if the business has a fiscal year.
- To reduce 2014 taxable income, consider deferring a debt-cancellation event until 2015.
- To reduce 2014 taxable income, consider disposing of a passive activity in 2014 if doing so will allow you to deduct suspended passive activity losses.
- If you own an interest in a partnership or S corporation consider whether you need to increase your basis in the entity so you can deduct a loss from it for this year.

- If you are a business and you are the only employee, a solo 401K can be set up for 2014 contributions to reduce taxes. Also a SEP IRA can be setup and funded any time before next year's second due date (9/15/2015 for corporations and 10/15/2015 for self-employed individuals).

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. We also will need to stay in close touch in the event Congress revives expired tax breaks, to assure that you don't miss out on any resuscitated tax saving opportunities.

Very truly yours,

Steve Trojan, CPA