# What You Do Today Shapes Your Profits Tomorrow

## Top 10 Reasons to Start Tax Planning Now

Few business sectors embody today's entrepreneurial spirit, drive for innovation and unwavering perseverance more than the small business community. From creating the majority of new jobs in the United States to employing almost half of the private industry workforce, its 28 million members not only personify the American dream but also serve as the growth engine of the U.S. economy.

***Top 10 Tax & Financial Issues for Small Business*** provides an overview of key tax law provisions that may affect your small business and the latest information and practical strategies for minimizing your tax bill. Information is current as of May 15, 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 provisions 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 can provide trusted advice and services for your small business during tax season and throughout the year.

# Table of Contents


1. Section 179 Expense and Bonus Depreciation Deduction . . . . . . . . . . . . . 2

2. Start-up and Organizational Expenses. . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . 3

3. Small Business Health Insurance Credit . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . 4

4. Choice of Entity . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . 4

5. Saving for Retirement . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . 5

6. Business Succession Planning . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . 6

7. State and Local Tax Issues . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . 6

8. 3.8% Surtax on Investment Income . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . 7

9. New Health Care Law Requirements . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . 8

10. Home Office Deduction . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . . 8

## 1. SECTION 179 EXPENSE AND BONUS DEPRECIATION DEDUCTION

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.

The deduction applies to most tangible personal business property placed in service during the tax year, including computers, office furniture, vehicles and machinery, as well as off-the-shelf computer software and qualified real property. 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.

The American Taxpayer Relief Act of 2012 (ATRA) extended the Section 179 deduction through 2013. ATRA also extends for one year the availability of first-year "bonus" depreciation. If the entire cost of business property cannot be immediately deducted as a Section 179 expense, your property still 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 into service, with any remaining basis subject to regular depreciation rules.

Determining how best to maximize the tax benefits between bonus depreciation and the Section 179 deduction 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. SMALL BUSINESS HEALTH INSURANCE CREDIT

To encourage employers to help subsidize their employees' health insurance coverage, a tax credit is available to eligible small businesses who pay at least half of their employees' health insurance coverage. Even if an owner doesn't owe tax in the current year, the credit can provide a tax refund by being carried back or used in future years.

However, a number of criteria, including the number of full-time equivalent employees and their average wages, affect the extent to which the credit can be applied. Small businesses with 10 or fewer full-time equivalent employees and average annual wages of less than $25,000 can receive the full credit. Employers who pay 25 or fewer full-time equivalent employees an average annual wage of less than $50,000 are eligible for a portion of the credit but determining eligibility may be difficult, as the credit requires significant information and complex calculations. Talk to your CPA to see if your business qualifies.

## 4. CHOICE OF ENTITY

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. 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.

Qualified retirement plans include many tax benefits to both the employer and employees. 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. In addition, plans may have nondiscrimination requirements and top-heavy rules, which require their own tax-filing obligations.

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 identify the best plan for your small business.

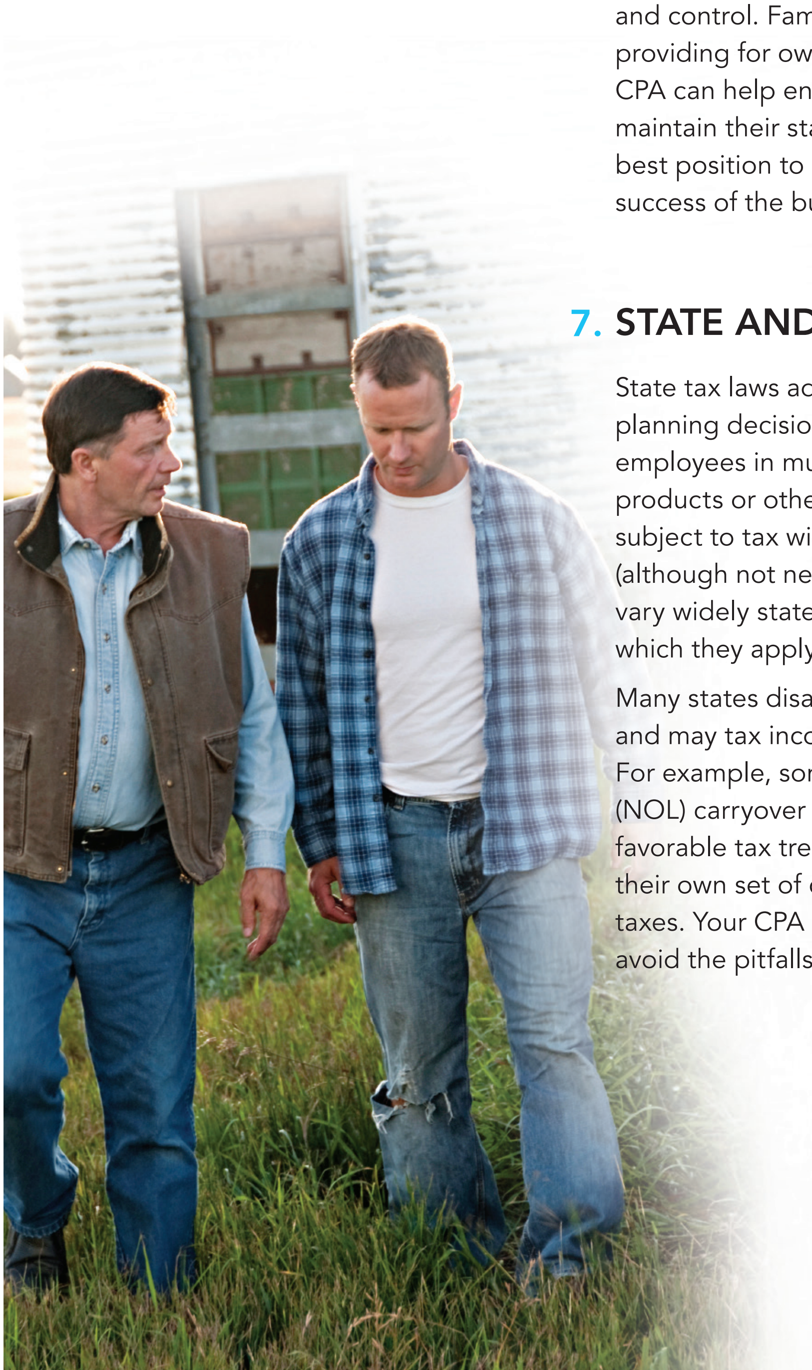
## 6. BUSINESS SUCCESSION PLANNING

In the next few years, a significant number of family-owned, small businesses will experience a change in leadership due to retirement, disability or death. Having no business succession plan can be harmful to both the business and the business owner. Succession planning is a much broader and complex topic than simply minimizing estate taxes. It includes considerations of gift and income taxes, providing successful continuation of the family business, valuing the business and planning for the transfer of business assets, ownership and control. Family issues such as maintaining family harmony and providing for owners and heirs also need to be considered. Your CPA can help ensure that retiring owners have sufficient cash flow to maintain their standard of living and that the new owners are in the best position to manage the company to provide for the long-term success of the business.

## 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.

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% SURTAX ON INVESTMENT INCOME

The new 3.8% Medicare Contribution Tax went into effect Jan. 1, 2013. The 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 you understand the reach of the new tax and provide suggestions to minimize its effect.

### TAX REFORM AND YOU

Momentum for comprehensive tax reform continues to grow. President Obama has called for Congress to approve a bipartisan comprehensive tax reform plan. While there is much uncertainty concerning the direction of future tax legislation, the congressional tax writing committees are discussing significant changes to small business taxation. The AICPA provides you with knowledge and insights to proposed legislation, as well as commentary and recommendations as proposals are fleshed out in Congress (aicpa.org/taxreform). In addition, talk to your CPA about what tax reform might mean to you and your business.

## AVOID AN AUDIT!

Did you know that the IRS increased audits of partnerships and S corporations by nearly 20% in 2012? The increasing complexity of the tax law can lead to significant errors in filing these returns, making it critical that small businesses obtain professional advice. Among other issues, the IRS is concerned with the classification of workers as employees or independent contractors and whether reasonable salaries are being paid to shareholder employees of S corporations. Hiring an experienced CPA to prepare your tax returns can help you avoid audit issues and solve tough tax problems you encounter throughout the year.

## 9. 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 2014, 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 (2013).

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

## 10. HOME OFFICE DEDUCTION

Home office expenses are generally 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). In addition, deductions such as interest and property taxes allocable to the home office are still permitted as an itemized deduction for taxpayers using the safe harbor. 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 **May 15 2013**.

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