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Contact: Al Rickard

 703-402-9713

 arickard@associationvision.com

**Year-End Tax Tips for Businesses From**

**The National Society of Accountants**

ALEXANDRIA, VA, November 21, 2013 — Year-end tax planning can be challenging for even the most organized businesses.

This year end, however, provides unique opportunities for businesses to reassess their plan to maximize tax savings for the 2013 tax year and for 2014 and beyond.

This year shareholders and other business owners face a new landscape of tax rates for higher income individuals: a 39.6 percent income tax rate, a 20 percent maximum tax rate on capital gains and dividends, a 3.8 percent net investment income tax and a 0.9 percent Medicare compensation surtax. New as well are requirements and opportunities surrounding the tax treatment of repairs, improvements, acquisition costs and other common business expenses.

Some usual tax breaks for businesses may end with 2013 if Congress does not renew them, such as bonus depreciation, enhanced “Section 179” expensing and a sunsetting work opportunity credit.

Finally, although the “employer mandate” under the new health care reform law was recently postponed from 2014 to 2015, now is not too early to start planning to comply with rules that will be based on employee makeup starting Jan. 1, 2014.

The National Society of Accountants (NSA) offers this review of tax changes and strategies for businesses, courtesy of CCH (a Wolters Kluwer business).

**Bonus Depreciation**

Bonus depreciation is scheduled to end after 2013 if not renewed by Congress.

Additional 50-percent bonus depreciation was extended by the American Taxpayer Relief Act of 2012 (ATRA, signed into law on Jan. 2, 2013) for one year only and applies to qualifying property placed in service before Jan. 1, 2014.

In the case of property with a longer production period and certain non-commercial aircraft, the extension also applies to property acquired before Jan. 1, 2014, and placed in service before Jan. 1, 2015.

Unlike regular depreciation, a taxpayer is entitled to the full 50-percent bonus depreciation irrespective of when during the year the asset is purchased. Year-end placed-in-service strategies therefore can provide an almost immediate “cash discount” from qualifying purchases, even when factoring in the cost of business loans to finance a portion of those purchases.

Bonus depreciation is available only for new property (i.e., property the original use of which begins with the taxpayer) that is:

* tangible property;
* depreciable under the Modified Accelerated Cost Recovery System (MACRS) with a recovery period not exceeding 20 years;
* purchased computer software;
* water utility property; or
* qualified leasehold improvement property.

For passenger automobiles placed in service in 2013, the deduction limitations for the first three years are $3,160 ($11,160 if bonus depreciation applies), $5,100, and $3,050, respectively, and $1,875 for each succeeding year.

For trucks and vans first placed in service in 2013, the deduction limitations for the first three years are $3,360 ($11,360 if bonus depreciation applies), $5,400, and $3,250, respectively, and $1,975 for each succeeding year.

The additional $8,000 first-year depreciation cap for luxury passenger automobiles to account for bonus depreciation will no longer be available for vehicles acquired and placed in service after Dec. 31, 2013.

Some businesses may want to purchase vehicle and place it into service before year-end 2013 to avoid the loss of this depreciation.

**Code Section 179 Expensing**

An enhanced section 179 expense deduction is available until 2014 for taxpayers (other than estates, trusts or certain non-corporate lessors) that elect to treat the cost of qualifying property (“Section 179 property”) as an expense rather than a capital expenditure.

The current section 179 dollar cap for 2013 is $500,000. For tax years beginning after 2013, that limit plunges to $25,000 unless extended by Congress. For tax years beginning in 2013, the overall investment limitation is $2 million; that is also scheduled to fall to $200,000 in 2014.

A taxpayer will receive the greatest benefit from Code Section 179 by expensing property that does not qualify for bonus depreciation, such as used property and property with a long MACRS depreciation period.

Section 179 property is generally defined as new or used depreciable tangible section 1245 property purchased for use in the active conduct of a trade or business. Off-the-shelf computer software is also included for 2013, as is qualified real property (up to $250,000). Both of these will no longer qualify for section 179 expensing after 2013, even at the lower $25,000 ceiling.

After four years, the section 179 expensing allowance for qualified real property is scheduled to end for property placed in service after 2013. Qualified real property for expensing purposes includes leasehold improvement property, restaurant property and retail improvement property.

Any amount of expensing for qualified real property disallowed by reason of the taxable income limitation, however, may not be carried forward to a tax year that begins after 2013 and must be recovered through regular depreciation deductions only.

**Revised Repair/Capitalization Rules**

The IRS recently issued long-awaited comprehensive final rules on the treatment of payments to acquire, produce or improve tangible property.

Starting Jan. 1, 2014, businesses must use these rules in determining whether they can deduct their costs as repairs under Code Sec. 162(a) or must capitalize the costs, to be recovered over a period of years under Code Sec. 263(a).

Businesses will benefit if certain procedures for treating expenses are put into place by Jan. 1, 2014. Some businesses will be better off if they start applying the new rules retroactively to the 2012 and 2013 tax years. Many of these decisions require advance planning.

**Work Opportunity Credit**

The Work Opportunity Credit ends Dec. 31, 2013. To qualify for the credit, an employer must hire members of certain targeted groups and have those individuals start work before Jan. 1, 2014.

Targeted groups, as listed in Code Sec. 51, include qualified individuals in families receiving certain government benefits:

* Title IV-A social security benefits (aid for dependent children) or food stamps;
* qualified individuals who receive supplemental social security income or long-term family assistance;
* veterans who are members of families receiving food stamps, who have service-connected disabilities, or who are unemployed;
* designated community residents;
* vocational rehabilitation referrals certified to have physical or mental disabilities; and others.

Employees must be certified as members of a target group by a designated local agency (DLA). On or before the day the employee begins work, the employer must receive a written certificate from the DLA indicating that the employee is a member of a specific targeted group. Employers can use Form 8850. “Pre-Screening Notice and Certification Request for the Work Opportunity Credit,” to obtain the certification.

The IRS allows forms to be submitted electronically to DLAs with receipt systems that meet IRS standards. Alternatively, as part of a written certification request, the employer may complete a pre-screening notice on or before the day the employee is offered a job and submit the notice to the designated local agency within 28 days after the employee commences work.

The credit is generally equal to 40 percent of the qualified worker's first-year wages up to $6,000 ($3,000 for summer youths and $12,000, $14,000, or $24,000 for certain qualified veterans).

For long-term family aid recipients, the credit is equal to 40 percent of the first $10,000 in qualified first year wages and 50 percent of the first $10,000 of qualified second-year wages.

**Small-Business Stock**

ATRA ’12 extended the 100-percent exclusion allowed for gain on the sale or exchange of qualified small-business stock under Code Section 1202. The stock must be acquired before Jan. 1, 2014, and held for more than five years by non-corporate taxpayers. Preferential AMT treatment also applies. The exclusion under Code Section 1202 after 2013 reverts to a 50-percent exclusion.

Eligible gain from the disposition of qualified stock of any single issuer is subject to a cumulative limit for any given tax year equal to the greater of: $10 million ($5 million for married taxpayers filing separately), reduced by the total amount of eligible gain taken in prior tax years; or 10 times the taxpayer's adjusted basis in all qualified stock of a corporation disposed of during the tax year.

**Pass-Through Issues**

Many business operations are not taxed on the entity level as corporations but instead pass through taxable profits and losses to their unincorporated owners or to their S-corporation shareholders. Starting in 2013, these owners face new year-end planning challenges in the form of a higher individual tax rate of 39.6 percent and additional surtaxes on passive income by way of the net investment income surtax of 3.8 percent and the Additional Medicare Tax of 0.9 percent on compensation, both aimed at the “higher-income” taxpayers.

Deferring some of this income or harvesting losses to offset some of the income are traditional year-end planning techniques that take on added value for the 2013 year-end tax year.

**Recognition Period for S Corporation Built-in Gains**

For tax years beginning in 2012 and 2013, for purposes of computing the built-in gains tax, the recognition period is the five-year period beginning with the first day of the first tax year for which the corporation was an S corporation.

The built-in gains tax can be triggered by downsizing or other business survival decisions, including the disposal of unused assets to raise needed cash. Relief provided by the shorter recognition period may be valuable for small family- or privately-owned businesses.

**Other Expiring Provisions**

Several other expiring provisions in the tax law are worth noting, including:

* Enhanced deduction for charitable contributions of food inventory;
* Tax incentives for empowerment zones;
* Indian employment credit;
* Low-income tax credits for non-federally subsidized new buildings;
* Low-income housing tax credit treatment of military housing allowances;
* Adjusted-basis reduction of stock after S corporation charitable donation of property.

**Other Tax Credits**

*Research Credit.* The 2012 Taxpayer Relief Act extends the research credit to apply to any amounts paid or incurred for qualified research and experimentation before Jan. 1, 2014.

*Differential Wage Credit for Activated Military Reservists.*Eligible small employers can claim a tax credit for up to 20 percent of the military differential wage payments it makes to activated military reservists through Dec. 31, 2013.

**The Business-Personal Connection**

Business tax planning involves not only economic planning for that year, but also making wise tax decisions that will benefit the business for years to come. Tax-saving strategies must take into account short-term and long-term goals so that decisions made for the current tax year also represent sound tax decisions in following years.

Often, because business planning opportunities must be viewed in conjunction with personal tax planning, taxpayers should also consider planning tips affecting their individual return and investment considerations when making business decisions.

Tax provisions are constantly changing, so NSA recommends consulting with your tax advisor on these and other business tax issues.

For more information and to locate an accountant in your area, visit [www.nsacct.org](http://www.nsacct.org). For more information about CCH, visit [www.tax.cchgroup.com](http://www.tax.cchgroup.com).

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