2013 Year End - 2014 Tax Planning Guide for Businesses

Greetings from all of us at McRuer CPAs:

Each year we look for the best strategies to reduce your tax bill. We have listed business tax law changes and updates for your review as the year reaches its final day. This list highlights several potential tax-saving opportunities that we have featured during clients' complimentary year-end tax planning meetings which you may consider either as you make last-minute tax decisions, or as you plan for 2014. We have also provided a brief review of individual income tax tips.

While time may be short to consider how these suggestions may lessen your 2013 tax liability, many of them may also help you in 2014. If you have any questions about how these tax tips and ideas may apply to you, or if you'd like to schedule your 2013 tax strategy session with us, please contact us online at www.kccpa.com/contact_us or call us at: 816.741.7882.

We look forward to serving you with your 2013 individual and/or business tax filings!

Sincerely,

Scott McRuer
Managing Member
McRuer CPAs

Table of Contents

**Note:* The information contained in this letter is based on the contents provided by Bloomberg BNA, formerly the Bureau of National Affairs. It is also a compilation of several reputable tax information resources provided to professional tax preparation and planning service providers each year. To determine specifically how this information applies to your account it is best to contact McRuer CPAs directly for more information.

McRuer CPAs
1251 NW Briarcliff Parkway — Suite 100
Kansas City, Missouri 64116-1776
(816) 741-7882 — kccpa.com

Deferring Income into 2014

Deferring income to the next taxable year is a time-honored year-end planning tool. If you expect your AGI to be higher in 2013 than in 2014, or if you anticipate being in the same or a higher tax brackets in 2013 than in 2014, you may benefit by deferring income into 2014. Some ways to defer income include:

Use of Cash Method of Accounting: By using the cash method of accounting instead of the accrual method of accounting, you can generally put yourself in the best position for accelerating deductions and deferring income. There is still time to accomplish this strategy, because an automatic change to the cash method can be made by the due date of the return including extensions. The following three types of businesses can make an automatic change to the cash method: (1) small businesses with average annual gross receipts of $1 million or less (even those with inventories that are a material income producing factor); (2) certain C corporations with average annual gross receipts of $5 million or less in which inventories are not a material income producing factor; and (3) certain taxpayers with average annual gross receipts of $10 million or less. Provided inventories are not a material income producing factor, sole proprietors, limited liability companies (LLCs), partnerships, and S corporations can change to the cash method of accounting without regard to their average annual gross receipts.

Delay Billing: Delay year-end billing to clients so that payments are not receive until 2014.

Interest and Dividends: Interest income earned on Treasury securities and bank certificates of deposit with maturities of one year or less is not includible in income until received. To defer interest income, consider buying short-term bonds or certificates that will not mature until next year. If you have control as to when dividends are paid, arrange to have them paid to your after the end of the year.

Accelerating Income into 2013

Self-Employed Health Insurance Premiums: Self-employed individuals\s are allowed to claim 100% of the amount paid during the taxable year for insurance that constitutes medical care for themselves, their spouses, and their dependents as an above-the-line deduction, without regard to the general 10%-of-AGI floor.

Equipment Purchases: If you purchase equipment, you may make a *"Section 179"*[1] election," which allows you to expense (i.e., currently deduct) otherwise depreciable business property. For 2013, you may elect to expense up to $500,000 of equipment costs (with a phase-out for purchases in excess of $2,000,000) if the asset was placed in service during 2013. Note that for assets placed in service in 2013, taxpayers can expense 50% of their business equipment purchases under a provision giving taxpayers bonus depreciation, mitigating the need for the Section §179 election.

In 2014, the dollar amounts for §179 expensing are scheduled to be $25,000, with a phase-out amount of $200,000. There is a chance the 2014 figures will go up. It would be wise, then, to place more assets in service in 2013 if you have yet to hit the $500,000 figure.

In addition, careful timing of equipment purchases can result in favorable depreciation deductions in 2013. In general, under the "half-year convention," you may deduct six months' worth of depreciation for equipment that is placed in service on or before the last day of the tax year. (If more than 40% of the cost of all personal property placed in service occurs during the last quarter of the year, however, a "mid-quarter convention" applies, which lowers your depreciation

[1] For more information on Section 179: http://www.irs.gov/uac/Net-Operating-Loss-Carryback,-Sec.-179-Deduction-and-Other-ARRA-Business-Provisions

McRuer CPAs
1251 NW Briarcliff Parkway — Suite 100
Kansas City, Missouri 64116-1776
(816) 741-7882 — kccpa.com

deduction.) A popular strategy in recent years is to purchase a vehicle for business purposes that exceeds the depreciation limits set by statute. (i.e., a vehicle rated over 6,000 pounds). Doing so would not subject the purchase o the statutory dollar limit, $11,160 for 2013 (due to bonus depreciation rules), $11,360 in the case of vans and trucks (due to bonus depreciation rules). Therefore, the vehicle would qualify for the full equipment expensing dollar amount. However, SUVs (rated between 6,000 and 14,000 pounds gross vehicle weight) the expensing amount is limited to $25,000.

NOL Carryback Period: If your business suffers net operating losses for 2013, you generally apply those losses against taxable income going back two tax years. Thus, for example, the loss could be used to reduce taxable income—and thus generate tax refunds—for tax years as far back as 2011. Certain "eligible losses" can be carried back three years; farming losses can be carried back five years.

Bad Debts: You can accelerate deductions to 2013 by analyzing your business accounts receivable and writing off those accounts that are totally or partially worthless. By identifying specific bad debts, you should be entitled to a deduction. You may be able to complete this process after year-end if the write-off is reflected in the 2013 year-end financial statements.

Home Office Deduction: Expenses attributable to using the home office as a business office are deductible under Section 280A[2] if the home office is used regularly and exclusively; (1) as a taxpayer's principal place of business for any trade or business; (2) as a place where patients, clients, or customers regularly meet or deal with the taxpayer in the normal course of business; or (3) in the case of a separate structure not attached to the residence, in connection with a trade or business.

Capitalization of Tangibles: Final regulations as provided in guidance on the application of Sections 162(a) and 263(a) to amounts paid to acquire, produce or improve tangible property, expand the definition of materials and supplies to include property with an acquisition or production cost of $200 or less, clarity the application of the optional method of accounting for rotable and temporary spare parts, and simplify the application of the de minimis safe harbor to material and supplies. The regulations generally apply to taxable years beginning on or after January 1, 2014. However, taxpayers generally may choose to apply the final regulations to tax years beginning on or after January 1, 2012, and before January 1, 2014. The taxpayer makes the de minimis safe harbor election annually by including a statement of the tax return for the year elected.

Business Credits

Small Employer Pension Plan Startup Cost Credit: For 2013, certain small business employers that did not have a pension plan for the preceding three years may claim a nonrefundable income tax credit for expenses of establishing and administering a new retirement plan for employees. The credit applies to 50% of qualified administrative and retirement-education expenses for each of the first three plan years. However, the maximum credit is $500 per year.

Credit for Employee Health Insurance Expenses of Small Employers: For tax years beginning after 2009, eligible small employers are allowed a credit for certain expenditures to provide health insurance coverage for their employees. Generally, employers with 10 or fewer full-time equivalent employees (FTEs) and an average annual per-employee wage of $25,000 or less are eligible for the full credit. The credit amount begins to phase out for employers with either 11 FTEs or an average annual per-employee wage of more than $25,000. The credit is phased out completely for

[2] http://www.irs.gov/Businesses/Small-Businesses-&-Self-Employed/Home-Office-Deduction

McRuer CPAs
1251 NW Briarcliff Parkway — Suite 100
Kansas City, Missouri 64116-1776
(816) 741-7882 — kccpa.com

employers with 25 or more FTEs or an average annual per-employee wage of more than $50,000 or more. The credit amount is 35% of certain contributions made to purchase health insurance. Beginning in 2014, the credit is only allowable if the health insurance is purchased through the SHOP Exchange and is only available for two consecutive taxable years.

Inventories

Subnormal Goods: You should check for subnormal goods in your inventory. Subnormal goods are goods that are unsalable at normal prices or unusable in the normal way due to damage, imperfections, shop wear, changes of style, odd or broken lots, or other similar causes, including second-hand goods taken in exchange. If your business has subnormal inventory as of the end of 2013, you can take a deduction for any write-downs associated with that inventory provided you offer it for sale within 30 days of your inventory date. The inventory does not have to be sold within the 30-day timeframe.

Planning for 2014 Tax Increases and Potential Expiration of Tax Relief Provisions

S Corporation Built-In Gains Tax: An S corporation generally is not subject to tax; instead, it passes through its income or loss items to its shareholders, who are taxes on their pro-rata shares of the S corporation's income. However, if a business that was formed as a C corporation elects to become an S corporation, the S corporation is taxes at the highest corporate rate on all gains that were built in at the time of the election if the gains are recognized during a special holding period. For tax years beginning in 2009 and 2010, the special holding period was shortened from 10 years to seven years. It is shortened even more for tax years beginning in 2011, 2012, and 2013 to five years. Absent Congressional action, it appears that the special holding period will revert to 10 years in 2014. Therefore, it may be advisable for S corporations to dispose of their built-in gain property before the end of 2013.

100% Exclusion of Gain Attributable to Certain Small Business Stock: The incentive for individuals to acquire qualified small business stock is higher before the end of 2013. An individual ordinarily may exclude 50% of the gain from qualified small business stock that is held for at least five years (subject to a cap). "Qualified small business stock" is stock of a corporation the assets of which do not exceed $50 million when the stock is issued. The 50% exclusion of gain was increased to 75% for qualified small business stock acquired after February 17, 2009, and before September 28, 2010. The 2010 Small Business Jobs Act (SBJA) excluded 100% of the gain for qualified small business stock acquired or issued after September 27, 2010, and the American Taxpayer Relief Act of 2012 (2012 ATRA) extended the 100% exclusion to qualified small business stock acquired before January 1, 2014. In addition, the alternative minimum tax preference item attributable to the sale is eliminated. For stock acquired after December 31, 2014, only 50% of the gain from the sale/exchange of qualified small business stock held for more than 5 years is excluded from the gross income (assuming no further Congressional action).

Qualifying Dividends: Qualified dividends received in 2011 and 2012 are subject to rates similar to the capital gains rates. For taxable years beginning on or after January 1, 2013, the 2012 ATRA made permanent the capital gain treatment of qualified dividend income for taxpayers below the newly reinstated 39.6% tax bracket, but raised the top capital gain rate for taxpayers in the 39.6% bracket to 20%. Qualified dividends are typically dividends from domestic and certain foreign corporations.

Basis Adjustment to Stock of S Corporations Making Charitable Contributions of Property: The rule that the basis of an S corporation shareholder's stock is decreased by charitable contributions of property by the S corporation in an amount equal to the shareholder's pro rata share of the adjusted basis of the contributed property expired for

McRuer CPAs
1251 NW Briarcliff Parkway — Suite 100
Kansas City, Missouri 64116-1776
(816) 741-7882 — kccpa.com

contributions made in taxable years beginning after December 31, 2011. The 2012 ATRA extended the special basis-adjustment rule (in part, retroactively) through 2012 and 2013, to contributions made on or before December 31, 2013.

Employer-Provided Child Care Credit: For 2013, employers may claim a credit of up to $150,000 for supporting employee child care or child care resource and referral services. The credit is allowed for a percentage of "qualified child care expenditures," including for property to be used as part of a qualified child care facility, for operating costs of a qualified child care facility, and for resource and referral expenditures. Legislation in early 2013 made this credit permanent.

Employer Wage Credit for Employees in the Military: Some employers continue to pay all or a portion of the wages of employees who are called to active military service. If the employer has fewer than 50 employees and has a written plan for providing such differential wage payments, the employer is eligible for a credit. The amount of the credit is equal to 20% of the first $20,000 of differential wage payments to each employee for the taxable year. The credit expires after 2013.

Work Opportunity Credit: The work opportunity credit is an incentive provided to employers who hire individuals in groups whose members historically have had difficulty obtaining employment. The credit gives a business an expanded opportunity to employ new workers and to be eligible for a tax credit against the wages paid. The credit is determined based on a first-year wages paid for employees hired on or before December 31, 2013.

Bonus Depreciation: Taxpayers can claim 50% bonus depreciation for assets placed in service in 2013. Bonus depreciation is also allowed for machinery and equipment used exclusively to collect, distribute, or recycle qualified reuse and recyclable materials and qualified disaster assistance property. In 2014, bonus depreciation generally does not apply.

Health Care Planning

SHOP Exchanges: Beginning in 2014, the Small Business Health Options Program begins to allow certain small businesses to obtain health insurance for their employees through an exchange. The program is designed for employers with 50 or fewer full-time equivalent employees. Coverage must be offered to all full-time employees working 30 or more hours per week. Each state will offer its own SHOP marketplace. Self-employed persons with no employees cannot use the SHOP Exchange.

Reporting

Uncertain Tax Positions: The final Instructions for Schedule UTP state that a corporation must file Schedule UTP with its income tax return if it: (1) files Form 1120, Form 1120-F, Form 1120-L, or Form 1120-PC; (2) has assets of $50,000,000 or more beginning with the 2012 tax year, and $10,000,000 or more beginning with the 2014 tax year (the threshold was $100,000,000 or more for tax years before 2012); (3) issued (or a related party issued) audited financial statements reporting all or a portion of the corporation's operations for all or a portion of the corporation's tax year; and (4) has one or more tax positions that must be reported on Schedule UTP. A taxpayer that files a protective Form 1120, 1120-F, 1120-L, or 1120-PC and satisfies the conditions set forth above also must file Schedule UTP.

McRuer CPAs
1251 NW Briarcliff Parkway — Suite 100
Kansas City, Missouri 64116-1776
(816) 741-7882 — kccpa.com

Unique Reference Identification Number: Forms 5471, 8858, and 8865 now contain a Unique Reference Identification number (URI) for each foreign entity with respect to which reporting is required. The URI will be used to track the foreign entity from year to year.

Electronic Deposits

Electronic Funds Transfer: As of January 1, 2011, a corporation must make its deposits of income tax withholding, FICA, FUTA, and corporate income tax by electronic funds transfer (EFT), including through the IRS's Electronic Federal Tax Deposit System (EFTPS).

Personal Income Tax Strategies and Year-End Tips

In January 2013, Congress passed the American Taxpayer Relief Act of 2012, which made permanent many, but not all, of the Bush-era tax cuts and also some tax benefits enacted during the Obama administration. Congress also permanently "patched" the alternative minimum tax (AMT) to prevent its encroachment on middle income taxpayers. The result lends more certainty in year-end tax planning for 2013 because we know what the individual tax rates are in 2014, how many tax credits and deductions are structured, and more.

New Taxes and Rates

Some individuals may be surprised that they owe additional taxes in 2013, even with the extension of the Bush-era tax cuts. Three new taxes are in effect for 2013: the 3.8% net investment income (NII) surtax, the 0.9% Additional Medicare Tax and a revived 39.6% tax bracket for higher income individuals.

The *3.8% NII Surtax* very broadly applies to individuals, estates and trusts that have certain investment income above set threshold amounts. These amounts include a $250,000 threshold for married couples filing jointly; $200,000 for single filers. One strategy to consider is to keep, if possible, income below the threshold levels for the NII surtax by spreading income out over a number of years or finding offsetting above-the-line deductions. If you are considering the sale of your home, and the proceeds will exceed the homesale exclusion, please contact our office so we can discuss any possible NII surtax.

The *Additional Medicare Tax* applies to wages and self-employment income above threshold amounts including $250,000 for married couples filing joint returns and $200,000 for single individuals.

ATRA extends the Bush-era tax rates for middle and lower income individuals, but also revived the 39.6% top federal income tax rate. For 2013, the starting point for the 39.6% income tax bracket is $450,000 for married couples filing jointly and surviving spouses, $425,000 for heads of households, $400,000 for single filers, and $225,000 for married couples filing separately. ATRA also revived the personal exemption phaseout and the limitation on itemized deductions for higher income individuals. Starting in 2013, ATRA also sets the top rate for capital gains and dividends to 20%.

McRuer CPAs
1251 NW Briarcliff Parkway — Suite 100
Kansas City, Missouri 64116-1776
(816) 741-7882 — kccpa.com

Health Care Changes

The *Affordable Care Act* requires individuals, unless exempt, to either carry minimum essential health care coverage or make a shared responsibility payment (also known as a penalty). Most employer-sponsored health insurance is deemed to be minimum essential coverage, as is coverage provided by Medicare, Medicaid, and other government programs. Self-employed individuals and small business owners should revisit their health insurance coverage, if they have coverage, and weigh the benefits and costs of obtaining coverage in a public Marketplace (or a private insurance exchange) for themselves and their employees. Small businesses may be eligible for a tax credit to help pay for health insurance. Individuals may qualify for a premium assistance tax credit, which is refundable and payable in advance, to offset the cost of coverage. Please contact our office for more details about the Marketplaces, and health insurance coverage for small businesses and individuals.

Individuals with Health Flexible Spending Accounts (FSAs) and similar arrangements should take a look at their spending habits for 2013 and predict how they will use these tax-favored funds in the future. In 2013, the maximum salary-reduction contribution to a health FSA is $2,500. Remember that health FSAs have strict "use it or lose it" rules, and the cost of over-the-counter drugs cannot be reimbursed with health FSA dollars unless you obtain a prescription (there are some exceptions).

Individuals who itemize their deductions also need to keep in mind the *10% floor for qualified medical expenses*. This change took effect at the beginning of 2013. It means that you can only claim deductions for medical expenses when they reach 10 percent of adjusted gross income (for regular tax purposes and for alternative minimum tax purposes). There is a temporary exception for individuals over age 65 for regular tax purposes.

Giving

Tax-free Gifts may be an effective year-end tax saving strategy. Individuals can make tax-free gifts (no tax consequences for the giver or the recipient) of up to $14,000 to any individual. Married couples may "split" their gifts to each recipient, which effectively raises the tax-free gift to $28,000. Gifts between spouses are always tax-free unless one spouse is not a U.S. citizen. In that case, the first $143,000 in gifts made in 2013 is tax-free.

There are special rules for *gifts made for medical care and education* that can be a valuable component of a year-end tax strategy, especially for individuals who want to help a family member or friend. Monetary gifts given directly to a full-time college student to pay tuition or to a medical service provider are tax-free to the person making the gift and the person benefitting from education or medical care.

Gifts to charity also are frequently made at year-end. Through the end of 2013, taxpayers aged 70 ½ and older can make a tax-free distribution from individual retirement accounts to a charity. The maximum distribution is $100,000. Individuals taking this option cannot claim a deduction for the charitable gift.

Retirement Savings

Year-end is a good time to review your retirement savings plans and tax strategies to ensure they work together well from a savings and a tax perspective. For 2013, the maximum amount of contributions that can be made to an IRA is $5,500, with a $1,000 catch-up amount allowed for individuals over age 50. Keep in mind that the maximum amount that can be contributed to a Roth IRA begins to decrease once a taxpayer's adjusted gross income crosses a certain threshold. For example, married couples filing jointly will begin to see their contributions begin to phase out when their

McRuer CPAs
1251 NW Briarcliff Parkway — Suite 100
Kansas City, Missouri 64116-1776
(816) 741-7882 — kccpa.com

AGI is $178,000. Once their AGI reaches $188,000 or more, they can no longer contribute to a Roth IRA. For single filers the corresponding income thresholds for 2013 are $112,000 and $127,000. Please note that 2013 contributions, for tax purposes, may be made until April 15, 2014.

Traditional IRAs and Roth IRAs are very different savings vehicles. A traditional IRA or Roth IRA set up years ago may not be the best savings vehicle today or for the immediate future if employment and other personal circumstances have changed. Some individuals may be contemplating rolling over a workplace retirement plan into an IRA. Very complex rules apply in these situations and rollovers should be carefully planned. The same is true in converting a traditional IRA to a Roth IRA and vice-versa. Every individual has unique goals for retirement savings and no one size fits all. Please contact our office for a more detailed discussion of your retirement plans.

Expiring Tax Incentives

Are you planning to purchase a big-ticket item such as a new car or boat? The state and local sales tax deduction (available in lieu of the deduction for state and local income taxes) is scheduled to expire after 2013, and you may want to accelerate that purchase to take advantage of the tax break. A valuable tax credit for making certain energy efficient home improvements, including windows and heating and cooling systems, and a deduction for teachers' classroom expenses are also scheduled to expire after 2013. So, if you have made such an improvement to your primary or secondary residence, consider whether you may be able to receive a tax credit or deduction.

With Our Appreciation

We want to work with you as your trusted advisors and tax planning strategists to make certain you receive the tax deductions and tax credits you are eligible for. If you have any questions about the above tax information and how they apply to your overall 2013 business and/or individual tax preparation strategies, please don't hesitate to contact us. We will be happy to talk with you by email, phone or in a face-to-face meeting at your convenience.

This year's tax season opening day is delayed to January 31, 2014. Though this reduces the time a taxpayer has to prepare and file a tax return, the due date for filing and paying taxes owed remains April 15, 2014. So, the sooner you make your final decisions and schedule your tax meeting with us, the better.

We look forward to visiting with you and appreciate your continued trust in our accounting and tax preparation team at McRuer CPAs.

Phone: 816.741.7882 Email: www.kccpa.com/contact_us

Thank you!

McRuer CPAs
1251 NW Briarcliff Parkway — Suite 100
Kansas City, Missouri 64116-1776
(816) 741-7882 — kccpa.com