Year-End Tax Tips for Businesses

The end of the year gives you and your business a great chance to maximize tax savings for 2015 and beyond. There are several general strategies to consider, such as use of traditional timing techniques for income and deductions and the role of the tax extenders, as well as strategies targeted to your particular business. As in past years, planning is uncertain because of the Affordable Care Act and the expiration of many popular but temporary tax breaks.

Filing changes

Recent legislation changed filing deadlines for some entity tax returns for 2016: Partnership tax returns will be due on March 15, not April 15 (for calendar year partnerships), and c-corporation returns will be due on April 15, not March 15 (for calendar year C Corporations). Returns for s-corporation will continue to be due on March 15.

Expensing and bonus depreciation

Many businesses use enhanced Code Sec. 179 expensing as a key component of year-end tax planning. Sec. 179 property is generally defined as new or used depreciable tangible property purchased for use in a trade or business. Software was also recently included, as was qualified leasehold improvement property, qualified restaurant property and qualified retail improvement property.

(Congress has not renewed the enhancements to Sec. 179 expensing for 2015, but they likely will be renewed. Year-end planning should reflect both the likely extension *and* the possibility of no extension.)

Similarly, bonus depreciation has been a valuable incentive for many businesses. Fifty percent bonus depreciation generally expired after 2014 (with limited exceptions for certain types of property). Qualified property for bonus depreciation must be depreciable under the Modified Accelerated Cost Recovery System (MACRS) and have a recovery period of 20 years or less – a wide variety of assets. Year-end placed-in-service strategies can provide an almost immediate cash discount for qualifying purchases.

Although you should factor a bonus-depreciation election into year-end strategy, you don't have to make a final decision on the matter until you file a tax return. Also, bonus depreciation isn't mandatory: you might want to elect out of bonus depreciation to spread depreciation deductions more evenly across future years.

Another potentially useful strategy involves maximizing benefits under Sec. 179 by expensing property that *doesn't* qualify for bonus depreciation, such as used property, and property with a long MACRS depreciation period.

Code Sec. 199 Deduction

Year-end planning benefits from the release of guidance on the Code Sec. 199 domestic production activities deduction is an often under-utilized potential break. The guidance provides many examples of what business activities qualify; recent Internal Revenue Service guidance highlights manufacturing, construction, oil-related work, film production, agriculture, and many other pursuits.

Work Opportunity Tax Credit

If your business is considering expanding payrolls before 2015 ends, take a look at the Work Opportunity Tax Credit (WOTC). (Although the WOTC, under current law, expired after 2014, Congress is expected to renew the WOTC for 2015 and possibly for 2016).

Generally, the WOTC rewards employers that hire individuals from certain groups, including veterans, families receiving certain government benefits, and individuals who receive supplemental Social Security Income or long-term family assistance. 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 half of the first $10,000 of qualified second-year wages.

Repair-capitalization rules

Currently, a *de minimis* safe harbor under the so-called “repair regs” allows you to deduct certain items costing $5,000 or less that are deductible in accordance with your company’s accounting policy reflected on your applicable financial statement (AFS). IRS regulations also now provide a $2,500 *de minimis* safe harbor threshold if you don’t have an AFS.

Routine service contracts

If you’re an accrual-basis taxpayer (meaning you have a right to receive income as soon as you earn it), you have a new tool for planning. The IRS has provided a safe harbor under which accrual-basis taxpayers may treat economic performance as occurring on a ratable basis for ratable service contracts – perhaps particularly useful in connection with your regular services that extend into 2016. If your business meets the safe harbor for ratable service contracts, you may be able take a full deduction in the current tax year for certain 2015 payments even though you may not perform the services until next year.

Affordable Care Act (ACA)

For large businesses, the ACA imposes many new requirements, including the employer shared responsibility provision (also known as the employer mandate). Small businesses, although generally exempt from this mandate, need to review how they deliver employee health insurance.

Many small businesses have provided a health benefit to employees through a health reimbursement arrangement (HRA). Following passage of the ACA, the IRS described certain types of HRAs as employer payment plans – therefore subject to the ACA’s market reforms, including the prohibition on annual limits for essential health benefits and the requirement to provide certain preventive care without cost sharing. Failure to comply with these reforms triggers excise taxes under Code Sec. 4980D.

Pending legislation in Congress would allow small employers (that is, those with fewer than 50 full-time and full-time equivalent employees) to have stand-alone HRAs and reimburse expenses without violating the ACA’s market reforms.

Small employers also should review the Code Sec. 45R credit. If your business has no more than 25 full-time equivalent employees, you may qualify for a special tax credit to help offset your costs of employee health insurance. You must pay average annual wages of no more than $50,000 per employee (indexed for inflation) and maintain a qualifying health care insurance arrangement. (Generally, health insurance for employees must be obtained through the Small Business Health Options Program, part of the Health Insurance Marketplace.)