



## **2017 BUSINESS TAX PLANNING**

We hope that you are doing well and that business is exceeding your expectations in 2017. It is hard to believe that it is mid-December and this year is quickly coming to a close. We wanted to take this time to go over a few year-end tax planning strategies and some important updates concerning your business tax situation. The following are some items you may want to consider with respect to your 2017 business tax planning.

### **RETIREMENT PLANNING**

As year-end approaches, this is a good time to be sure you are funding your retirement programs to the fullest extent. The amount of contributions varies depending on the type of plan the business has implemented. Some common limits are 401(k)/403(b) limit: \$18,000 if under 50 years old, \$24,000 if over 50 years old; Simple limit \$12,500 if under 50 years old, \$15,500 if over 50 years old. Please contact us if you would like to confirm that you will maximize the funding of your retirement plans for 2017. Also, let us know if you would like to review your current retirement plan and evaluate other options.

### **UPDATE QUICKBOOKS/SAGE OR OTHER ACCOUNTING SOFTWARE**

Now would be a good opportunity to review your QuickBooks records or other accounting software such as Sage to see if there are any outstanding bookkeeping issues that need to be dealt with before the end of the year; such as bank reconciliations, payroll reconciliations, new asset purchases, recording new loans, adding last year's adjusted journal entries, and adjusting A/R and A/P. It's a lot easier on all of us if these issues are dealt with before the rush of tax season deadlines.

### **REASONABLE COMPENSATION FOR OFFICERS**

For any business operating as an S corporation, it's important to ensure that shareholders involved in running the business are paid an amount that is commensurate with their workload. The IRS scrutinizes S corporations which distribute profits instead of paying compensation subject to employment taxes. Failing to pay arm's length salaries can lead not only to tax deficiencies, but penalties and interest on those deficiencies as well. The key to establishing reasonable compensation is being able to show that the compensation paid for the type of work an owner-employee does for the S corporation is similar to what other corporations would pay for similar work. If you are in this situation, we need to document the factors that support the salary you are being paid.

### **DEPRECIATION**

One of the biggest tax benefits to a business is the Section 179 deduction, which allows taxpayers to write off property purchases that would otherwise be capitalized and depreciated over time. Currently, for property placed in service in 2017 ("new" or "used"), the Section 179 expense deduction is capped at \$510,000. It's still worthwhile to evaluate whether it's appropriate in your situation to increase capital improvement purchases to take advantage of this deduction.

In addition, a bonus depreciation deduction is available which allows a business to claim a 50-percent additional first-year depreciation deduction on qualified "new" property placed in service in 2017. Thus, for example, if your business purchases \$800,000 of qualifying



equipment in 2017, the total first year deduction would be \$684,000 (\$800,000 - \$510,000 (maximum Code Sec. [179](#) deduction) - \$145,000 (50% depreciation x remaining basis of \$290,000) - \$29,000 (normal depreciation of 20% x remaining basis of \$145,000)).

### **DE MINIMIS SAFE HARBOR ELECTION**

It may be advantageous to elect the annual de minimis safe harbor election for amounts paid to acquire or produce tangible property. By making this election, and as long as the items purchased don't have to be capitalized under the uniform capitalization rules and are expensed for financial accounting purposes or in your books and records, you can deduct up to \$2,500 per invoice or item (or up to \$5,000 if you have an applicable financial statement).

### **ACCURATE ASSET DISPOSALS**

Please review your 2017 asset listing attached to your tax return closely and let us know if any of the property on the 2016 tax return has been disposed. This will aid in the preparation of your County/City Personal Property tax returns and ensure that you are not being taxed on equipment that is no longer in service. Henrico/City of Richmond/Chesterfield personal property tax returns and business license renewals are due March 1, 2018 (Hanover and Caroline is due May 1, 2018). If we are preparing the returns please make sure we have the information by **February 1, 2018**.

### **REVENUE AND EXPENSE TIMING**

If you are a cash basis taxpayer, the revenue and expenses reported on your tax returns are recorded when they are received and paid. The timing of when you receive payments from customers and make payments to vendors can greatly alter the amount of revenue and expenses your business is required to report. Please contact us if you are considering shifting your income to reduce your flow-through income. The proposed tax reform could even provide further benefit with this strategy.

### **CHILDREN WORKING IN BUSINESS**

Children working in closely-held businesses can offer a tax planning opportunity and potentially be targeted toward educational planning. The wages paid to children working in your closely-held business are tax deductible. The amount of compensation must be reasonable. Children can earn approximately \$6,400 without paying individual income taxes. This would allow your children to supplement educational planning without incurring additional income tax liability. The business would benefit from the deduction of the wages paid to your children. If you have school-aged children working in your business, please let us know so we can help you determine if they should be added to the payroll.

### **CREDITS**

Business credits are available for certain energy efficiency improvements; disabled access improvements, and adding certain employees under the work opportunity credits. Please let us know if you have made access improvements to your facilities and/or equipment, completed any energy efficiency upgrades, or added to your staff with any workers from certain veteran/disadvantaged groups.



### **INCREASED PENALTIES FOR FAILURE TO TIMELY FILE INFORMATION RETURNS**

In addition to the accelerated filing deadlines for 2017 Forms W-2, Forms W-3, and Forms 1099-MISC, higher penalties apply for (1) the failure to file correct Forms W-2 by the due date; (2) the intentional disregard of filing requirements; (3) the failure to furnish Forms W-2; and (4) the intentional disregard of payee statement requirements. In addition to applying to Forms W-2, W-3, and 1099-MISC, other common forms subject to these increased penalties include: Schedules K-1 for Forms 1041, 1065, and 1120S. Penalties for the late filing of these information returns have also increased. For each information return or payee statement with respect to which a failure occurs, the penalty has been increased from \$250 to \$260, and the maximum penalty that may be imposed has been increased from \$3,000,000 to \$3,178,500. The per-failure penalty for intentionally disregard the filing requirements also has been increased, from \$500 to \$520.

### **CHANGES MADE TO TAX RETURN DUE DATES**

In general, **C-Corporations** with tax years ending in 2017 now have an extra month to file their federal income tax returns. Such returns are due by the 15th day of the fourth month following the close of the tax year, rather than the 15th day of the third month following the close of the tax year. Thus, 2017 calendar-year C corporation federal income tax returns are due April 18, 2017, due to April 15<sup>th</sup> falling on a Saturday and Monday, April 17<sup>th</sup> being Emancipation Day in the District of Columbia. A special rule exempts C corporations with fiscal years ending on June 30<sup>th</sup> from this change until tax years beginning after December 31, 2025. Thus, the filing deadline for such corporations remains September 15<sup>th</sup> until 2026 (when it will change to October 15<sup>th</sup>).

**Partnerships** with tax years ending in 2017 are now required to file their federal income tax returns by the 15th day of the third month following the close of the tax year, rather than the 15th day of the fourth month following the close of the tax year. Thus, 2017 calendar-year partnership federal income tax returns are due March 15, 2017. While partnerships were previously allowed a five-month extension of time in which to file their tax returns, they are now allowed a six-month extension so that the extended due date is the same as under prior law (i.e. September 15).

The filing deadline for **S-Corporation** returns remains unchanged, meaning that partnerships and S corporations will now share the same due dates.

All business returns that go on extension will be due September 15, 2017.

### **Increasing Basis in Pass-thru Entities**

If you are a partner in a partnership or a shareholder in an S corporation, and the entity is passing through a loss for the year, you must have enough basis in the entity in order to deduct the loss on your personal tax return. If you don't, and if you can afford to, you should consider increasing your basis in the entity in order to take the loss in 2017.



### **VEHICLE DEDUCTIONS AND SUBSTANTIATION**

Expenses relating to business vehicles can add up to major deductions. If your business could use a large passenger vehicle, consider purchasing a sport utility vehicle weighing more than 6,000 pounds. Vehicles under that weight limit are considered listed property and deductions are more limited. However, if the vehicle is more than 6,000 pounds, up to \$25,000 of the cost of the vehicle can be immediately expensed.

Vehicle expense deductions are generally calculated using one of two methods: the standard mileage rate method or the actual expense method. If the standard mileage rate is used, parking fees and tolls incurred for business purposes can be added to the total amount calculated.

Since the IRS tends to focus on vehicle expenses in an audit and disallow them if they are not properly substantiated, you should ensure that the following are part of your business's tax records with respect to each vehicle used in the business: (1) the amount of each separate expense with respect to the vehicle (e.g., the cost of purchase or lease, the cost of repairs and maintenance); (2) the amount of mileage for each business or investment use and the total miles for the tax period; (3) the date of the expenditure; and (4) the business purpose for the expenditure. The following are considered adequate for substantiating such expenses: (1) records such as a notebook, diary, log, statement of expense, or trip sheets; and (2) documentary evidence such as receipts, canceled checks, bills, or similar evidence. Records are considered adequate to substantiate the element of a vehicle expense only if they are prepared or maintained in such a manner that each recording of an element of the expense is made at or near the time the expense is incurred.

### **MISCELLANEOUS TAX CONSIDERATIONS**

Other considerations for 2017 include the following:

- (1) The 100 percent exclusion from gross income of gain from the sale of small business stock;
- (2) The reduction to five years of the recognition period for the built-in gains of S corporations;
- (3) The deduction for charitable deductions of food inventory by taxpayers other than C corporations;
- (4) The expensing allowance for certain film and television productions and the cost of live theatrical productions;
- (5) The deduction for income attributable to domestic production activities in Puerto Rico;
- (6) Tax rules relating to payments between controlled foreign corporations and dividends of regulated investment companies;
- (7) The basis adjustment rule for stock of an S-Corporation making charitable contributions of property;
- (8) Tax incentives for investment in empowerment zones.

### **PENDING TAX REFORM**

Congress may enact tax reform by year's end, with the most changes to take effect in 2018 and later. Final legislation would almost certainly include a sharp reduction in the corporate tax rate to as low as 20 percent, and a new tax break for business entity pass-



through income (i.e., business from partnerships, LLCs, S corporations, and Schedule C businesses), the details of which remain up in the air. Senate and House Bills also include generous enhancements of provisions allowing assets to be fully expensed in the year they are placed in service. The Senate Bill also includes a requirement for taxpayers to recognize income no later than the tax year in which such income is taken into account on an applicable financial statement or another financial statement, but would provide an exception for certain long-term contracts. The new business tax breaks are proposed to be partially offset by the repeal of various deductions, credits, and other breaks allowed under current law.

We are hesitant to speculate about the final details of the tax reform changes that may make it into law, as there are some significant differences between the House and Senate proposals that have yet to be resolved. That said, the potential for sharp rate reductions for some businesses is not something we should ignore. Nor is the possible loss of deductions, credits, and other tax breaks that may be repealed to help offset the cost of the new breaks. In some cases, it may create an additional incentive to either accelerate or delay expenditures and to defer income into next year. That's something we can discuss when we meet.

#### **UNCERTAIN TAX LANDSCAPE**

We will keep you updated with any changes that occur. You can also refer to our website [www.caecpa.com](http://www.caecpa.com) that contains all of the tax law updates as they occur.

Let us know if you have any questions, or if you require any clarification of any of these subjects. We wish you a successful conclusion to 2017.