NFIB

PROTECTING THE FUTURE OF SMALL BUSINESS®

2015

# SMALL BUSINESS TAX GUIDE

## AN NFIB E-BOOK

ESSENTIAL TIPS FOR PLANNING AND SAVING ON TAXES IN 2015

# OVERVIEW

# WHAT'S NEW IN 2015

**Every year brings new tweaks to the U.S. tax code. Here are some of the latest changes affecting small business owners this year:**

## 1 EXPIRED TAX EXTENDERS

In December 2014, Congress passed a bill retroactively renewing 50 expired tax incentives, otherwise known as "tax extenders," for businesses and individuals. However, the bill applied only to tax year 2014. Just weeks after they were renewed, the tax extenders expired for tax periods after Dec. 31, 2014.

"The whole point of these provisions is to stimulate the economy by giving businesses incentives to make large investments. If 2015 is anything like last year, businesses won't know until the very end of the year if they'll have those incentives," says Nick Karellas, tax counsel for NFIB. "The good news is, these tax extenders have been in place in their current form since 2010, so there's some assurance that Congress isn't going to pull the rug out from under small businesses. But there's no certainty that it won't."

### SECTION 179

Among the expired tax extenders is Section 179 of the tax code, which defines the deduction a business can take on the purchase price of qualifying equipment—computers, software or office furniture—purchased or leased during the tax year. In 2014, businesses could deduct from their gross income up to $500,000 in equipment purchases as long as they spent less than $2 million on equipment. The House renewed Section 179 in February, making the deduction of up to $500,000 permanent. If the Senate does not approve the bill, businesses in 2015 will only be able to deduct $25,000 in equipment purchases.

### BONUS DEPRECIATION

Likewise expired is bonus depreciation, which allows businesses that spend more than $2 million on qualifying new equipment to deduct half its cost in the tax year it was purchased, up to a maximum of $500,000.

"If I was planning to spend a lot of money on capital equipment this year, I would need to know that I might not get a tax break for it," says Robert Wheeler, a Santa Monica, California-based CPA. "So if you're making purchases for the write-offs, you need to be cautious."

## 2 THE EMPLOYER MANDATE

Tax provisions of the Affordable Care Act continue to have numerous implications for small businesses. The Employer Shared Responsibility Provision, otherwise known as the employer mandate, requires all businesses with 50 or more full-time equivalent employees to provide health insurance to their full-time employees or pay a penalty: $2,000 per full-time employee, excluding their first 30 employees. Employers who offer coverage but fail to meet minimum quality and affordability standards will owe the lesser of $2,000 per full-time employee, excluding their first 30 employees, or $3,000 per full-time employee who receives federal insurance subsidies.

The mandate will take effect in 2015 for businesses with 100 or more full-time employees, and in 2016 for businesses with 50 to 99 employees, making this an important planning year for small businesses.

"The ACA defines full time as 30 hours per week," Karellas says. "That could push some small businesses over the limit. So it's a good idea to use 2015 to determine whether you'll have 50 to 99 full-time employees under the law."

In January, a bill passed in the House changing the definition of a full-time worker to 40 hours per week. The White House has threatened to veto the bill if the Senate approves it.

## 3 NEW 401(K) PLAN LIMITS

In October 2014, the IRS announced new limits on contributions to employee 401(k) plans: In 2015, employees may contribute up to $18,000 to their 401(k) plans, with a higher total contribution limit (i.e., employer plus employee) of $53,000, up from $17,500 and $52,000, respectively, in 2014.

"For employers who have matching programs, the new limits mean you could get a larger tax write-off," Wheeler says.

## 4 CORPORATE TAX REFORM

Business tax reform could be on lawmakers' agenda in 2015. President Obama and Congress alike have identified corporate tax reform as a bi-partisan opportunity this year.

"Currently, the corporate tax rate is 35 percent, which is about 10 points higher than any other developed country in the world," Karellas says. "The president wants to lower the corporate tax rate to 28 percent. To pay for that, we're going to have to get rid of deductions and credits for all businesses, regardless of their business structure. If you're a sole proprietor or an LLC or an S corporation, this raises the real possibility of your taxes going up."

Among the possible changes are:

- The Section 199 domestic manufacturing deduction, which could be eliminated
- The depreciation schedule for business equipment, which could be extended from five years to eight or 10 years
- The advertising deduction, which could be modified so that businesses can only deduct half of their advertising expenses while having to depreciate the rest.

# MISSED OPPORTUNITIES: ARE YOU PAYING TOO MUCH TAX?

**According to Tom Wheelwright, author of Tax-Free Wealth and CEO of ProVision Wealth, a CPA firm in Tempe, Arizona, a few of the most commonly overlooked deductions are:**

### HOME OFFICE

This allows you to deduct expenses for the business use of your home and to increase the deduction you claim for the business use of your car. “Commutes aren’t deductible,” Wheelwright says. “If you work from home, your commute is the walk from your bedroom to your office, which means your first and last trip of the day outside your house—to or from visiting a client—are tax-deductible. That can add 30 to 40 percent to the deduction for your car.”

### MEALS AND ENTERTAINMENT

When their primary purpose is business-related, meals and entertainment are 50 percent tax-deductible. “Most small business owners are consumed with their business,” Wheelwright says. “They think, ‘I’m not at a business dinner; this is date night with my spouse.’ But if you’re having a legitimate business conversation, that’s a deductible meal.”

### TRAVEL

Travel during which you conduct legitimate business on Monday through Friday is 100 percent tax-deductible. “If you spend more than 50 percent of your day—four-plus hours—working while you’re on vacation, that travel is deductible,” Wheelwright says.

### C CORPORATIONS VS. S CORPORATIONS

The No. 1 way for most small businesses to reduce their tax burden is to reevaluate their business structure.

“A lot of small businesses are sole proprietorships or partnerships that report their business income on a Schedule C or Form 1065. That’s a big mistake,” Wheelwright says. “100 percent of your earnings could be subject to self-employment tax, whereas if you’re an S corporation you only have to pay self-employment tax on a portion of your earnings.”

C corporations are also tax-disadvantaged. “If you’re a C corporation, you pay a double tax,” he continues. “The corporation is taxed on its earnings, and you’re taxed again when you take those earnings out of the corporation as dividends.”

# HOW TO CHOOSE THE RIGHT TAX PROFESSIONAL

**Who you choose to prepare your taxes can have a significant impact on your tax burden. Small business owners typically choose a tax professional from among the following options:**

**CERTIFIED PUBLIC ACCOUNTANTS**
Requirements vary by state. Licensed Certified Public Accountants, or CPAs, typically must have at least a bachelor's degree in accounting. Most states require them to pass a state-issued exam and have at least two years of public accounting experience. CPAs are trained in tax preparation and tax planning. They also may be trained in financial planning, financial reporting, auditing, and other facets of personal and business finance.

**ENROLLED AGENTS**
Enrolled agents, or EAs, advise, represent and prepare tax returns for individuals and businesses. Although the federal government authorizes them to represent taxpayers before the IRS for audits, collections and appeals, they may or may not have a degree in accounting. Instead, they have completed an IRS-administered application and test focused exclusively on the tax code.

**TAX PREPARERS**
Tax preparers work for a tax preparation franchise like H&R Block or Jackson Hewitt. Their training typically is limited to a tax-return preparation course offered by their employer, which generally is focused on individual rather than business taxes.

"The better educated your tax professional, the lower your taxes should be," Wheelwright says. "The most educated is a CPA with a master's degree and work experience at one of the 'Big Four' accounting firms."

Also consider:
- Number of years in practice
- Experience working with small business
- Online reviews
- Frequency of client meetings

"As a small business owner, you want a tax professional who's available most of the year in case something comes up," Wheeler says.

# TAX PLANNING TO-DO LIST

**Tax planning and preparation should be year-round endeavors. Here's a quarterly checklist to help you stay on top of your taxes:**

## Q2 2015

- ○ Make your quarterly estimated tax payment: Your first quarter payment for tax year 2015 is due on April 15.
- ○ If your business is a sole proprietorship, partnership or LLC, file your 2014 taxes. The deadline for individual tax returns is also April 15.
- ○ Determine your payroll-tax schedule for tax year 2015, which varies depending on the amount of payroll taxes you accumulate during what the IRS calls a "lookback period." If your payroll tax liability is $50,000 or less during the lookback period, you must deposit taxes by the 15th of the month following the month of the liability. All taxes withheld and matching for paychecks prepared during the month of April, for example, are due on May 15. If your total tax liability is greater than $50,000 during the lookback period, taxes must be deposited on a semi-weekly schedule.
- ○ If you have an IRA and haven't yet made your maximum annual contribution of $5,500 for 2014, you still have time to do so: IRA contributions can be applied to tax year 2014 through April 15. If you don't have an IRA, establishing one now could reduce your 2015 tax bill.
- ○ Make your quarterly estimated tax payment: Your second quarter payment for tax year 2015 is due on June 15.

## Q3 2015

- Are you taking a summer vacation? If you work on your business at least 50 percent of the day, Monday through Friday, you can deduct the cost of your travel.
- If you have children who are old enough to work, consider hiring them for the summer. Your son or daughter can earn up to the standard deduction amount ($6,200) tax free, and you're entitled to a business deduction for the wages paid.
- Consider scheduling a mid-year checkup with your tax professional. Reviewing your business income and expenses year-to-date might warrant a change in tax strategy.
- Make your quarterly estimated tax payment: Your third quarter payment for tax year 2015 is due on Sept. 15.

## Q4 2015

- Consider scheduling an end-of-year meeting with your tax professional to discuss what tax-advantaged moves you can still make to reduce your 2015 tax bill.
- Calculate your income and quarterly estimated tax payments year to date. If you think you've overpaid or underpaid, consider increasing or decreasing your forthcoming fourth-quarter payment, which is due in January.
- Did you give gifts to clients during the holidays? You can deduct up to $25 per person per year for business-related gifts.

## Q1 2016

- Make your quarterly estimated tax payment: Your fourth and final payment for tax year 2015 is due on Jan. 15.
- Mail out Form W-2 to employees and Form 1099 to non-employees and contractors. Forms must be delivered by Feb. 1.
- Whether you keep paper or digital records, prepare your recordkeeping apparatus for 2016 to help you keep track of all potentially deductible items this year.

- Schedule your annual tax appointment with your tax professional. Set up a meeting well before April 15 in case you need to locate missing records or resolve other issues prior to filing.
- Assemble and organize all of your tax data for tax year 2015, including Forms W-2 and 1099, as well as receipts for any business deductions you plan to take.
- File Forms 1099 with the IRS and W-2 with the Social Security Administration. The deadline is Feb. 29 if you're filing paper forms and March 31 if you're filing digital forms.
- If your business is an S or C corporation, file your 2015 taxes. The deadline for corporate tax returns is March 15.
- File Form 2553 with the IRS if you intend to convert your business to an S corporation; all S corporation elections must be made by March 15.

# Visit NFIB.com/TaxHelp for more resources for your business.

Disclaimer: This publication is not designed as a substitute for legal tax advice. Rather, it is designed to help inform persons about the basic provisions of the federal tax law. Future changes in laws cannot be predicted, and statements in this publication are based solely on the laws in force on the date of publication. It is wise to consult with your tax advisor for assistance in proper tax-planning practices for your individual situation.