NFIB

PROTECTING THE FUTURE OF SMALL BUSINESS®

2016

SMALL BUSINESS TAX GUIDE

AN NFIB E-BOOK

ESSENTIAL TIPS FOR PLANNING AND SAVING ON TAXES IN 2016

OVERVIEW

WHAT'S NEW IN 2016

Each year brings new tweaks to the U.S. tax code, and 2015 turned out to be a big year in small business tax changes. Here's a look at what you need to know:

Tax Extenders

In December 2015, Congress passed legislation that made a host of expired tax provisions known as "tax extenders" permanent, as well as extended others for multiple years. This move was a welcome reversal from the previous year, in which Congress provided a mere two-week extension for tax extenders. Now, with more tax code certainty, small business owners can expect simplified tax preparation, improved cash flow, and an opportunity to invest in their businesses and their workforces. According to a study by the NFIB Research Foundation, extending or making these tax provisions permanent could create 197,000 more jobs and $18.6 billion in economic productivity.

• Section 179 Expensing

Under Section 179, small businesses can expense certain equipment costs and invest that money back into their businesses. Congress has now approved a permanent expensing cap of $500,000—up from the $25,000 the cap reverted to after 2014's two-week extension.

• Bonus Depreciation

Small business owners can deduct 50 percent of expenses for asset acquisitions that are placed into service in 2015, 2016 and 2017. In 2018, the expensing deduction will be reduced to 40 percent; in 2019, it drops to 30 percent.

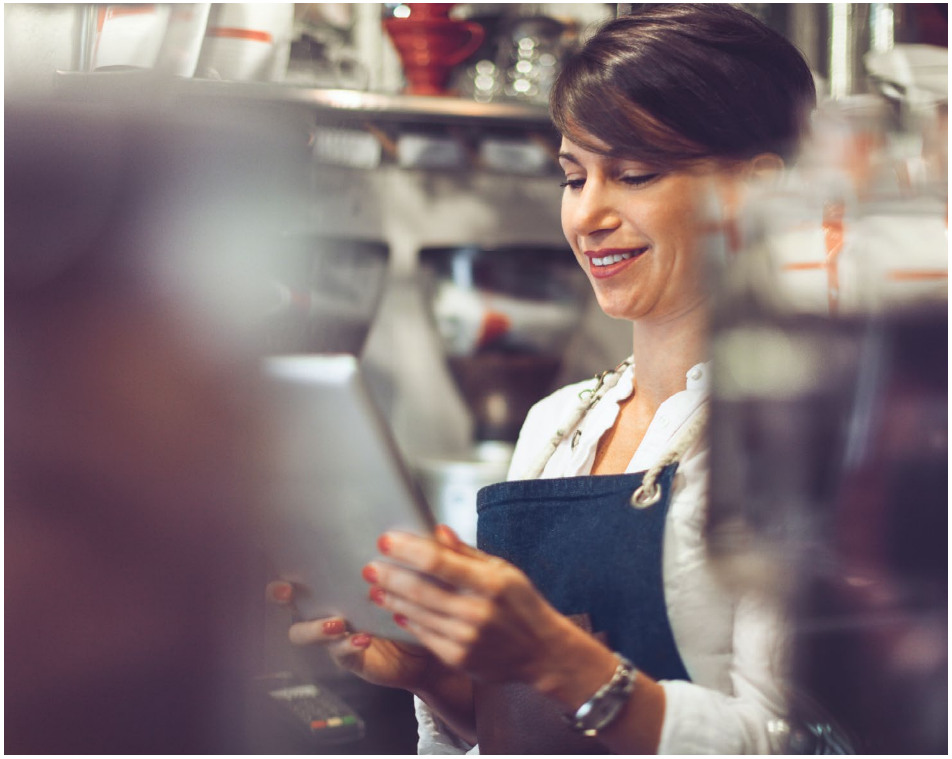
• Deduction of State and Local General Sales Taxes

The option to claim an itemized deduction for state and local general sales taxes in lieu of an itemized deduction for state and local income taxes has been made permanent. Taxpayers may either deduct the actual amount of sales tax paid in the tax year or deduct an amount prescribed by the IRS.

Nick Karellas, tax counsel for NFIB, said NFIB lobbied Congress for this change because if this tax provision had expired, small business owners in some states could have been at a competitive disadvantage. Allowing a deduction for income taxes but not sales taxes discriminates against residents of states that impose a sales tax rather than income tax.

• Reduced Recognition Period for S Corporation Built-In Gains Tax

Any small business that has recently converted to an S corporation from a C corporation and owns property with a built-in gain will benefit from this provision. Following this type



of conversion, an S corporation typically must hold its assets for a 10-year period to avoid a tax on any built-in gains that existed at the time of conversion; otherwise the gains recognized during this period would be taxed at the highest corporate rate of 35 percent.

"Requiring businesses to hold on to certain assets for 10 years or pay a second layer of tax holds small businesses in an otherwise unnecessary impediment that makes running a business more difficult," Karellas says.

This 10-year recognition period has been permanently reduced to five years.

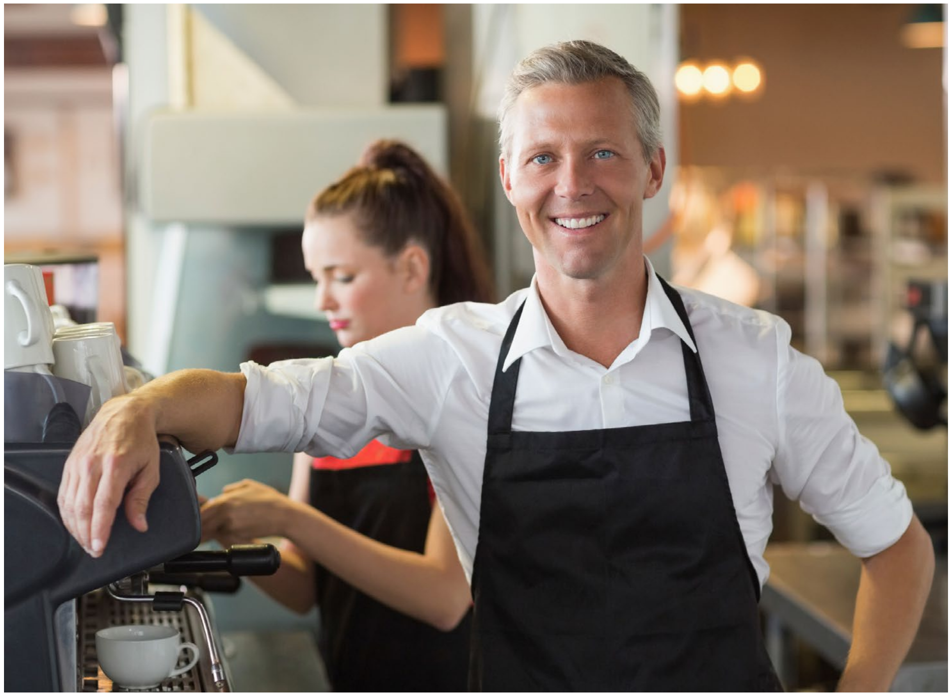
Tax Compliance Changes

In 2015, Congress also enacted legislation that will have an impact on tax filing, including changing business filing dates and increasing penalties for mistakes on certain information returns.

• Increased Penalties for Information Returns

Under the Trade Preferences Extension Act of 2015, which Pres. Barack Obama signed in June, taxpayers may incur penalties associated with late, erroneous or incomplete filing of information returns and payee statements, including 1099s, 1095s (newly required forms for certain taxpayers under the Affordable Care Act) and W-2s. For example: The penalty for information returns filed within 30 days past the original due date—whether initially correct or corrected—is now $50 (up from $30) per form, and the penalty for corrected returns filed on or before Aug. 1 is $100 (up from $60) per return. These new penalties are effective for returns and statements required to be filed after Dec. 31, 2015.

"Due to these penalty increases, small businesses must be more vigilant in making sure they are filing the proper forms with the correct information in a timely manner," Karellas says.



• Modified Business Tax Return Due Dates

After years of lobbying, the American Institute of Certified Public Accountants and state CPA societies were finally successful in getting a more logical flow of information to help taxpayers and tax professionals in filing timely and accurate tax returns. These new due dates will apply to returns for the 2016 tax year onward.

"Small businesses and their tax preparers might expect some extra workload earlier in the year than previously, as the due dates have been accelerated," Karellas says.

Partnership and S corporation tax returns: Due March 15 for calendar year partnerships (a month earlier than the previous date).

C corporation tax returns: Due the 15th day of the fourth month following the close of the corporation's year (April 15 for calendar year corporations). The return or extension must be postmarked or transmitted for e-filing by April 18.

HOW THE AFFORDABLE CARE ACT AFFECTS YOUR TAX BILL

Tax provisions under Obamacare continue to impact small business owners. Here's the latest:

EMPLOYER MANDATE: FULL PHASE-IN DURING 2016

In 2016, after numerous administrative delays and adjustments, the employer mandate will be fully implemented. All midsize businesses (50 to 99 full-time employees) and large businesses (100 or more full-time employees) must offer affordable and adequate health insurance to 95 percent of full-time employees or pay penalties.

The penalty for not offering insurance will increase to $2,160 per employee, minus 30 employees. The penalty for offering unaffordable insurance will increase to $3,240 per employee. Insurance coverage is deemed affordable when an employee's contribution to the self-only (not family) premium is less than 9.5 percent of his or her income. (Box 1 of an employee's W-2 form lists total income.)

EMPLOYER MANDATE: 2015 TAX YEAR COMPLIANCE

Despite the one-year reprieve from the employer mandate, midsize businesses must still report coverage offers to the IRS for tax year 2015. Midsize and large businesses must distribute 1095-C forms to employees by March 31, 2016, and businesses must report coverage information to the IRS by May 31, 2016. These deadlines were extended by the IRS in December. For small businesses (fewer than 50 employees), their insurance carriers will distribute these forms to employees and report to the IRS.

Employers will also report employees' health insurance information on a monthly basis for 2015.

HRA PROHIBITION

In July 2015, the IRS began prohibiting employers of all sizes from directly paying for or reimbursing employees' individual market health insurance plans. Known as Employer

Payment Plans or Stand-Alone Health Reimbursement Accounts (HRAs), this flexible benefit allowed employers to better control healthcare costs and employees to choose the individual market plan that best fit their needs.

Penalties for violating the prohibition are severe—$100 per employee per day of violation—and could be especially consequential this tax filing/audit season. Small employers should adjust their benefits to avoid the potential penalties. One option is to provide previously tax-preferred funds as additional wages that are not contingent on the purchase of health insurance coverage.

5 TAX DEDUCTIONS YOU DON'T WANT TO MISS

Nick Karellas, tax counsel for NFIB, and Tom Wheelwright, author of *Tax-Free Wealth* and CEO of ProVision Wealth, a CPA firm in Tempe, Arizona, share five key deductions that you shouldn't overlook:

1 SECTION 179 EXPENSING AND BONUS DEPRECIATION

Two of the most important tax provisions approved by Congress in December 2015 are Section 179 expensing and bonus depreciation, which allow businesses to immediately deduct expenses paid for equipment purchases that typically had to be depreciated over many years.

"These two provisions, which are sometimes conflated but are two distinct expensing deductions, can mean big tax savings to a business that made a large amount of investments last year," says Karellas. "Businesses should check with their tax preparers on what purchases might be eligible for either or both Section 179 and bonus depreciation."

2 HOME OFFICE AND CAR

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 the 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."

3 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."

4 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.

5 C CORPORATIONS VS. S CORPORATIONS

The No. 1 way for most small businesses to reduce their tax burden is to re-evaluate 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. "One hundred 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."

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 2016

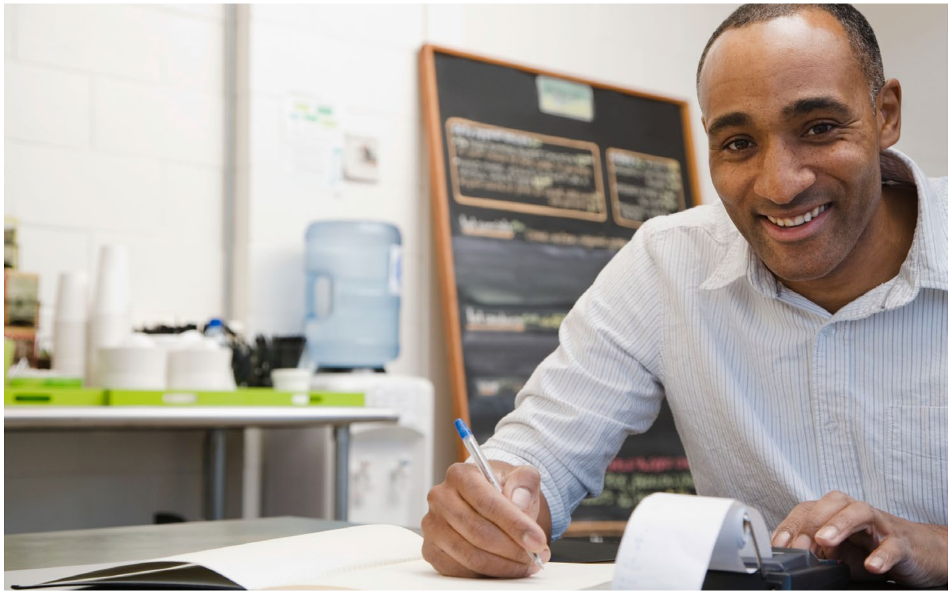
- ○ Make your quarterly estimated tax payment: Your first-quarter payment for tax year 2016 is due April 18.
- ○ If your business is a sole proprietorship, partnership or LLC, file your 2015 taxes. The deadline for individual tax returns is also April 18.
- ○ Determine your payroll tax schedule for tax year 2016, 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 May 15. If your total tax liability is greater than $50,000 during the lookback period, taxes must be deposited on a semiweekly schedule.
- ○ If you have an IRA and haven't yet made your maximum annual contribution of $5,500 for 2015, you still have time to do so: IRA contributions can be applied to tax year 2015 through April 18. If you don't have an IRA, establishing one now could reduce your 2016 tax bill.
- ○ Make your quarterly estimated tax payment: Your second-quarter payment for tax year 2016 is due June 15.

Q3 2016

- ○ 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 midyear 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 2016 is due Sept. 15.

Q4 2016

- ○ Consider scheduling an end-of-year meeting with your tax professional to discuss what moves you can still make to reduce your 2016 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 2017

- Make your quarterly estimated tax payment: Your fourth and final payment for tax year 2016 is due Jan. 15, 2017.
- Mail out Form W-2 to employees and Form 1099 to non-employees and contractors. In a recent change, forms must be delivered to both employees/contractors and the IRS by Jan. 31.
- Whether you keep paper or digital records, prepare your recordkeeping apparatus for 2017 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 2016, 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 and the employee. The deadline is Jan. 31, 2017.
- If your business is a partnership or S corporation, file your 2016 taxes. The deadline for these corporate tax returns is March 15. (C corporation tax returns are now due by April 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.

Q2 2017

- If your business is a C corporation, file your 2016 taxes. This corporate tax return is due April 15.

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