CLIENT LETTER

2016 Year-End Tax Planning for Businesses

Dear Client

As businesses approach year end, each has a unique opportunity to save additional taxes through taking a variety of strategic steps. Businesses seeking to maximize tax benefits through 2016 year-end tax planning may want to consider several general strategies, such as use of traditional timing techniques for income and deductions, and the role of the tax extenders (those made permanent and those expiring at the end of 2016), as well as strategies targeted specifically to their particular business.

As in past years, planning is uncertain because of the expiration of at least some popular but temporary tax breaks. Also added to the mix is the far-reaching Affordable Care Act (ACA) and whatever changes to 2017 the new Congress and Administration may make to the Tax Code.

Tax Law Changes

Changes to the tax laws in 2016 made by new IRS regulations and other guidance should also be considered in assessing year-end strategies for 2016. And year-end tax savings can be found in avoiding penalties, by knowing how to comply with some of the IRS's news rules and regulations.

PATH Act "Extenders." The Protecting Americans from Tax Hikes Act of 2015 (PATH Act), enacted at the end of 2015, made permanent many business-related provisions that had been up for renewal, including the 100-percent gain exclusion on qualified small business stock; the reduced, five-year recognition period for S corporation built-in gains tax; 15-year straight-line cost recovery for qualified leasehold improvements, restaurant property and retail improvements; charitable deductions for the contribution of food inventory and others. Perhaps most significant, especially for small businesses, enhancements starting in 2016 were added to both a permanently extended research credit and Code Sec. 179 expensing deduction.

Five-year Extensions. The PATH Act extended several business-related provisions available for five-years, under the expectation that general tax reform will consider a more permanent fate. Among these provisions, bonus depreciation and the Work Opportunity Credit have widespread applicability. Notably, in addition to extending bonus depreciation, a number of modifications have been made that:

- reduce the bonus rate from 50 percent to 40 percent for property placed in service in 2018 and to 30 percent for property placed in service in 2019 (for 2016 and again for 2017 it remains at 50 percent);
- replaces the bonus allowance for qualified leasehold improvement property with a bonus allowance for additions and improvements to the interior of any nonresidential real property, effective for property placed in service after 2015;

- allows farmers to claim a 50 percent deduction in place of bonus depreciation on certain trees, vines, and plants in the year of planting or grafting rather than the placed-in-service year, effective for planting and grafting after 2015;
- reduces the $8,000 bump-up in the first year luxury car depreciation cap for passenger automobiles on which bonus depreciation is claimed to $6,400 for passenger automobiles placed in service in 2018 and $4,800 for passenger automobiles placed in service in 2019, and only if the taxpayer does not generally elect out of bonus depreciation; and
- extends long-term accounting method relief for bonus depreciation claimed on property placed in service in 2015 through 2019.

Expiring at Year-End 2016. A handful of business-related tax breaks did not fare well by the PATH Act, being extended only through 2016. Further extensions remain uncertain. 2016 year-end strategies therefore should include, where appropriate, the acceleration of expenses to maximize use of:

- Film and TV production expense elections
- Energy efficient commercial buildings deductions
- Mine safety equipment expense elections
- Additional depreciation for biofuel plant property

Revised Repair Regulations. The IRS issued final tangible property regulations (aka, the "repair regs") over three years ago. They continue to control the accounting for costs to acquire, repair and improve tangible property. These "repair regs" impact virtually all asset-based businesses and have reverberated into 2016, with additional "clean-up" expected in 2017.

For 2016 year-end planning, qualifying for new safe harbors: a de minimis expensing safe harbor and a remodel-refresh safe harbor – both can yield substantial immediate deductions if followed.

Partnership Audit Rules. The Bipartisan Budget Act of 2015 (Budget Act) repealed the TEFRA unified partnership audit rules and replaces them with streamlined procedures. The Budget Act delayed the effective date of the new audit rules for returns filed for partnership tax years beginning after 2017. However, subject to certain exceptions, partnerships may choose to apply the new regime immediately to any partnership tax year beginning after November 2, 2015.

Business Use of Vehicles. Several year-end strategies for both business expense deductions for vehicles and the fringe-benefit use of vehicles by employees involve an awareness of certain rates and dollar caps that change annually. 2016 changes to the standard mileage rates and vehicle depreciation limits are critical to these strategies.

Affordable Care Act

Despite several delays and legislative tweaks, the basic structure of the ACA for businesses, both large and small, generally remains intact. If an employer is an applicable large employer (ALE), this triggers employer shared responsibility provisions and the employer information reporting provisions. Small businesses, too, are not unaffected by the ACA and should take the ACA into account in year-end planning. Some incentives under the ACA, including health reimbursement arrangements and small business health care tax credits, can help maximize tax savings for small businesses. Information reporting under the ACA continues to challenge all businesses.

Revised Deadlines

The due date for filing partnership and C corporation returns was modified by the Surface Transportation and Veterans Health Care Choice Improvement Act of 2015. Generally applicable to returns for tax years beginning after December 31, 2015, both Forms 1120-S and 1065 are due on or before the 15th day of the third month following the close of the tax year (March 15 for calendar-year taxpayers). The due date for the filing of Form 1120 by C corporations is changed to the 15th day of the fourth month following the close of the tax year (April 15 for calendar-year taxpayers).

Many taxpayers and tax professionals have long advocated for these changes to return due dates. These staggered due dates were recommended not only to enable taxpayers to receive Schedule K-1 information in time to meet their initial filing deadlines. They also help even out the workflow faced by tax preparers both in dealing with initial deadlines and with extensions. Further, the revisions are expected to contribute to a reduction in the need for extended and amended individual income tax returns.

These are just some of the considerations that make up year-end tax planning for businesses. Please feel free to contact our office so we can discuss specific 2016 year-end tax strategies that might be particularly worthwhile for your business.

Sincerely yours,

TICE ASSOCIATES, P.C.
PUBLIC ACCOUNTANTS
1709 W. Market St.
York, PA 17404

Phone: 717-843-9572
Fax: 717-845-1590
Web: www.ticeassociates.com