2014 Tax Filing Season

Dear Client:

Sciarabba Walker & Co., LLP is pleased to announce the relocation of our Ithaca office in the month of November. We have been proud to be a part of the downtown Ithaca community for the past 30 years. Our expanding staff, our aspiration to facilitate future growth, and our desire to better serve the local community have motivated our search for a larger space. We will be relocating to 410 East Upland Road in Ithaca. For more information, please call us at 607-272-5550.

In recent years, end of year tax planning for businesses has been complicated by uncertainty over the future availability of many tax incentives. The 2013 year-end is no different and there are also other unique changes that are affecting businesses.

The Patient Protection and Affordable Care Act (PPAC) includes key tax provisions that affect businesses. Some requirements are already in effect, while other provisions apply starting in 2013 or later. Higher tax rates may be imposed on distributions to owners and the net investment income regulations have the potential to impact individuals who are owners of pass-through entities. In addition, the U.S. Supreme Court's ruling in mid-July on the unconstitutionality of the federal Defense of Marriage Act (DOMA) means changes to retirement plans and employee benefits for same-sex marriages. Also, compliance with final repair regulations affects virtually all businesses.

Traditional Year End Strategies

Deferring income to the next taxable year and accelerating deductions into the current year is a traditional planning tool. If you expect your income or tax bracket to be higher in 2013 than in 2014, you may benefit from deferring income into 2014. If you expect to be in a higher tax bracket in 2014, you may plan to accelerate income into 2013 and postpone deductions to next year. If you are using the cash method of accounting you are in better position to use this year-end strategy.

Business Deductions

Bonus depreciation and the increased Code Sec. 179 expense deduction have provided temporary incentives for business investment and are set to expire at the end of 2013. Unless there is further legislative action, beginning in 2014 the Section 179 deduction limit is set at $25,000, and the investment limitation is set at $200,000 and bonus depreciation will no longer be available.

For 2013 the Code Sec 179 dollar limit is $500,000 and the investment limit is $2 million. For purposes of Code Sec. 179, qualifying property is depreciable tangible property that is purchased for use in an active trade or business. This includes off-the-shelf computer software placed in service before 2014. A taxpayer may also elect to treat qualified real property as Code Sec. 179

property. However, only $250,000 of the cost of qualified real property may be expensed. Qualified real property generally consists of qualified leasehold improvements, qualified retail improvement property, and qualified restaurant improvement property.

For 2013 taxpayers can expense 50% bonus depreciation for qualifying property acquired and placed in service before January 1, 2014. There is no limit to the total amount of bonus depreciation that may be claimed. Qualified property must be new property that is: tangible property with a recovery period not exceeding 20 years; purchased computer software; water utility property; or qualified leasehold improvement property.

Revised Repair/Capitalization Rules

The IRS recently issued long-awaited comprehensive final rules on the treatment of payments to acquire, produce or improve tangible property. Starting January 1, 2014, businesses must use these new rules in determining whether they can deduct their costs as repairs under Code Sec. 162(a) or must capitalize the costs, to be recovered over a period of years under Code Sec. 263(a). Businesses will benefit if certain procedures for treating expenses are put into place by January 1, 2014. Some businesses will be better off if they start applying the new rules retroactively to the 2012 and 2013 tax years. Many of these decisions require advance planning. We will be providing a more detailed summary of these new rules with the 2014 tax organizer we will send to you in December or January.

Pass-through Issues

Many business operations are not taxed on the entity level as corporations but, instead, pass through taxable profits and losses to their unincorporated owners or to their S corporation shareholders. Starting in 2013, these owners face new year-end planning challenges in the form of a higher individual tax rate of 39.6 percent and additional surtaxes on passive income by way of the net investment income surtax of 3.8 percent and the Additional Medicare Tax of 0.9 percent on compensation, both aimed at the “higher-income” taxpayers. Deferring some of this income, or harvesting losses to offset some of the income, are techniques that take on added value for the 2013 year-end tax year.

Business tax planning and tax-saving strategies must take into account short-term and long-term goals so that decisions made for the current tax year also represent sound tax decisions in following years. Often, because business planning opportunities must be viewed in conjunction with personal tax planning, a taxpayer should also consider planning tips affecting their individual return and investment considerations when making business decisions.

This letter highlights some tax-savings opportunities for you to consider. I would be happy to meet with you to discuss specific strategies and issues that may apply to you.

Sincerely,

Sciarabba Walker & Co., LLP