SCIARABBA WALKER &CO LLP
CERTIFIED PUBLIC ACCOUNTANTS
BUSINESS CONSULTANTS

Dear Valued Client,

It is time to consider year-end tax planning strategies for your business. You may want to apply traditional tax strategies to minimize your tax liabilities in 2016, such as deferring income into 2017 or accelerating expenses and deductions in 2016. It is also important to look ahead to minimize the risk of deferring income and pushing your business into a higher tax bracket next year. Below are some of the common tax incentives and opportunities currently available:

Tax Extenders

At the end of 2015, the Protecting Americans from Tax Hikes Act (PATH Act) made many business tax provisions permanent, including the following:

- *Code Section 179 Expensing*
  Section 179 allows for expensing qualified business equipment property purchased (e.g., machinery, computers, furniture, certain software and vehicles, etc.). Certain real property also qualifies and no longer has a separate limit. The property can be new or used. The annual expensing limit was permanently set to $500,000, with an annual inflation adjustment. The overall purchase limit before phaseout is permanently set at $2 million, indexed for inflation annually. As of 2016, air conditioners and heating units are now eligible for the Section 179 expense deduction.
- *15-Year Cost Recovery for Qualified Real Property*
  The provision allows a 15-year straight-line cost recovery of property for certain leasehold improvements, retail building improvements, and restaurant buildings and improvements.
- *Research Credit*
  Businesses with annual gross receipts not exceeding $50 million may be able to offset their alternative minimum tax (AMT) with this credit. Certain start-up companies with annual gross receipts of less than $5 million may be able to claim the credit against payroll tax liabilities.
- *Exclusion of Gain on Section 1202 Small Business Stock*
  The provision allows a taxpayer to exclude a certain percentage of gain realized on the sale of qualified small business stock. The exclusion percentage was permanently set at 100%.

The PATH Act also extended several business-related provisions for five years (through 2019):

- *Bonus Depreciation*
  50% bonus depreciation can be taken on qualifying new equipment property placed in service during the year. Bonus depreciation is often used when the Section 179 deduction is depleted. The percentage of depreciation allowed is set to decrease to 40% in 2018 and 30% in 2019.
- *Work Opportunity Tax Credit*
  This credit is available to employers who hire individuals from targeted groups, including veterans, individuals receiving certain government benefits, ex-felons, and youths hired during the summer. The credit is worth 40% of qualified first-year wages of employees from such targeted groups. **A new targeted group includes individuals hired on or after January 1, 2016, who were unemployed for at least 27 weeks prior to hire.**

A few business extenders are set to expire at the end of 2016, if not renewed by Congress, including:

- *Energy-Efficient Commercial Building Deduction*
  This deduction is generally available to building owners or lessees who install qualifying systems that reduce a building's total energy cost by at least 50%. The general deduction is

410 East Upland Road
Ithaca, New York 14850
607-272-5550 / 607-273-6357 (Fax)

839 State Route 13
Cortland, New York 13045

www.swcllp.com

worth \$1.80 per square foot. A deduction of \$0.60 per square foot may be available for energy reductions between 17% and 50%.

Revised Repair Regulations

- *De Minimis Safe Harbor*
  The IRS provided guidance in 2013 on when to capitalize or expense certain costs of property. The De Minimis Safe Harbor allows businesses to expense purchases under a certain dollar threshold, provided that there is a consistent capitalization policy in place as of the first of the year. The threshold for businesses with audited financial statements is \$5,000 per invoice or item (as substantiated by an invoice). In late 2015, the threshold for businesses without audited financial statements was changed to \$2,500 per invoice or item (as substantiated by an invoice) for the 2016 tax year, provided a policy was in place as of January 1, 2016. Businesses without a consistent capitalization policy should establish one by January 1, 2017, in order to qualify for the De Minimis Safe Harbor rules for 2017.

- *Remodel-Refresh Safe Harbor*
  Certain retailers and restaurants with audited financial statements may be able to expense 75% of qualified costs to remodel or refresh qualified buildings. The remaining 25% must be capitalized and depreciated over time.

Additional Important Legislation

- *Affordable Care Act – Businesses*
  Applicable large employers (at least 50 full-time employees or equivalents on average during the prior tax year) are now subject to employer-shared responsibility and employer information reporting provisions.

  Employers with less than 50 full-time employees or equivalents that are members of ownership groups with 50 or more full-time equivalent employees are subject to the rules for applicable large employers.

These are only a few important provisions to consider; there may be other opportunities that apply for your business. We would be happy to assist you with your year-end tax planning or answer any questions you have. Please contact our office at your earliest convenience to schedule an appointment.

Sincerely,

Sciarabba Walker & Co., LLP