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CERTIFIED PUBLIC ACCOUNTANTS
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News Brief

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Warm Up to Solar Energy with Tax Credits

By Elizabeth Dunnick

Many individuals and businesses in New York State have decided to "go solar" in the last few years, in part due to state incentives and community initiatives. When considering the purchase of solar panels, it is important not only to consider the benefits for the environment and your utility bill, but also the potential tax benefits. Here are two benefits for individuals and one for businesses:

Federal - Residential Energy Efficient Property Credit

Individuals who purchase qualified solar electric property or qualified solar water heating property may be eligible for a personal tax credit of 30% of the out-of-pocket cost of the property, including labor and installation. The solar property must be used to generate electricity or to heat water in a home that you use as your residence. The residence does not have to be your primary home. The credit may be taken for solar electric property installed off-site (e.g., a solar farm) if the energy is for use at your home and if you do not sell excess energy. The credit applies to solar energy property for which construction begins on or before December 31, 2019. Reduced credits are available for construction beginning after December 31, 2019, but before January 1, 2022.

New York State - Solar Energy System Equipment Credit

This credit is available to individuals who purchase solar energy equipment, enter an agreement to lease solar energy equipment, or enter a power purchase agreement that spans at least 10 years. The equipment must use solar radiation to produce energy for heating, cooling, hot water, or electricity. Unlike the federal credit, the property must be used in connection with a taxpayer's primary home. The credit is 25% of the cost of the equipment (excluding the amount of any federal credit taken), and is limited to $5,000.

Federal - Investment Credit (Energy Credit)

Businesses purchasing equipment that uses solar energy to generate electricity, heat or cool, or provide hot water may be eligible for the business energy credit. For 2017, the credit is 30% of the cost of the property (including any NYSERDA benefit reported as business income), but the credit is phased out for any construction beginning after calendar year 2021. Note that the equipment may not be expensed under IRC Section 179 if the credit is taken. The equipment's basis for depreciation must be reduced by 50% of the energy credit taken. *Currently there is no specific New York State business credit for solar energy.*

Taxpayers should keep in mind that all of these credits are nonrefundable, meaning the benefit is limited to the tax liability in the year the property is placed in service. Any unused portion of the credits may be carried forward and applied to (a limited number of) future tax years. For questions or further details on the rules for claiming these tax credits, please feel free to contact our office.

Year-End Tax Planning for Individuals

By Samantha Jordan

The end of 2017 is an excellent time to review your current tax planning strategies and take advantage of last-minute planning opportunities that could save you money now and in the coming year. With major tax reform projected by the end of this year, there is significant uncertainty regarding the tax laws. We can plan however, based on what we already know. To assist with your year-end tax planning, we have provided a few strategies to help minimize your tax burden:

Avoid Penalties. Check year-to-date withholding and estimated payments to determine if you should increase withholding or make any fourth-quarter estimated payments to avoid underpayment penalties at the federal and state levels. Health insurance will again factor into your taxes this year, with penalty assessments for lack of a minimum level of coverage for you, your spouse, and your dependents. Penalties for 2017 can be as high as $695 per adult, $347.50 per child under 18, or $2,085 per family.

Reduce Your Income. Consider contributions to your 401(k), 403(b), or similar employer-based retirement plans, as these contributions are generally excluded from your taxable income. Contributions of up to $18,000 can be made to these plans in 2017, with an additional $6,000 catchup for employees age 50 or older. Review your portfolio of investments and consider offsetting capital gains with losses to avoid higher tax brackets. The maximum IRA contribution for single taxpayers in 2017 is $5,500 (with a $1,000 catchup for individuals age 50 and older), while the maximum HSA contribution in 2017 is $3,400 for a single plan and $6,750 for a family plan.

Increase Deductions. If you itemize your deductions, consider paying real estate taxes and January mortgage payments in December and/or giving to charity to increase your itemized deductions. The rules for deducting medical and dental expenses have changed, and beginning in 2017, even if you or your spouse is 65 or older you can deduct only those unreimbursed expenses in excess of 10% of your adjusted gross income. Thorough documentation is required to claim deductions, so remember to save your receipts and acknowledgement letters.

Assess Tax Brackets. The top tax rate for 2017 is again 39.6%. If you have reached the threshold for net investment income tax, known as the NIIT ($250,000 for joint, $125,000 for single, and $200,000 for other filers, unchanged), an additional 3.8% tax may be assessed on certain types of income for a top combined rate of 43.4%. Spreading your income out over 2017–2018 to stay under the top rates may lower your tax bill.

Beware of Identity Theft. With the recent Equifax data breach, tax identity theft remains a concern. Filing your tax return early in the filing season can help prevent someone from filing a false return in your social security number. You may also want to consider a credit monitoring service to alert you to any suspicious activity. Beware of unsolicited emails or other forms of communication asking for your bank account information or other financial details. The IRS does not demand immediate payment over the phone, threaten to arrest you or demand a credit or debit card number or that you use a gift card to pay your taxes.

Year-End Tax Planning for Businesses

By Ethan Chaffee

The potential for tax reform has been a hot topic lately, but changes have not yet passed through the legislative process. If tax reform occurs, it will likely include lower tax rates on business income in future years, causing deductions to be worth more in 2017. Therefore, traditional strategies to defer income into future years and accelerate deductions in 2017 would be even more beneficial. Here are some tax benefits to consider in your year-end business tax planning, based on current law.

Code Section 179 Expensing and Bonus Depreciation

Section 179 allows for expensing of qualified new or used business equipment property purchased. Certain improvements to buildings may also qualify for the deduction. For tax years beginning in 2017, the expensing limit is $510,000 and the investment ceiling limit is $2,030,000. The bonus depreciation provision allows businesses to write off 50% of qualified new property placed in service during the year. 2017 is the last year for 50% bonus depreciation. The percentage decreases to 40% in 2018 and 30% in 2019.

Research Credit

While all businesses with qualified research expenses can use the credit to offset regular tax, businesses with annual gross receipts not exceeding $50 million may be able to offset their alternative minimum tax (AMT). Certain start-up companies with annual gross receipts of less than $5 million have the option to claim up to $250,000 of the credit against payroll tax liabilities.

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, youths hired during the summer, and individuals who were unemployed for at least 27 weeks prior to hire. The credit is worth 40% of qualified first-year wages of employees from such targeted groups.

Please note these additional important issues that could impact your tax planning:

Tax Nexus and State Filing Requirements

The concept of nexus involves the connection between a business and a jurisdiction that can lead to the imposition of tax. States continue to become more aggressive in asserting nexus over taxpayers. Depending on the circumstances and state rules, shipping goods or providing services to an out-of-state customer may require the business to pay income tax to that state.

Tax Reform Considerations

The current proposed tax bill, if signed into law, would:

- Allow immediate expensing (with no set dollar limit) of all depreciable asset investments (except buildings). The law would expire after five years.
- Provide for reduced tax rates for pass-through business income.
- Reduce the corporate tax rate from 35% to 20%.
- Eliminate corporate alternative minimum tax.
- Repeal most deductions and credits, but retain the research and low-income housing credits.

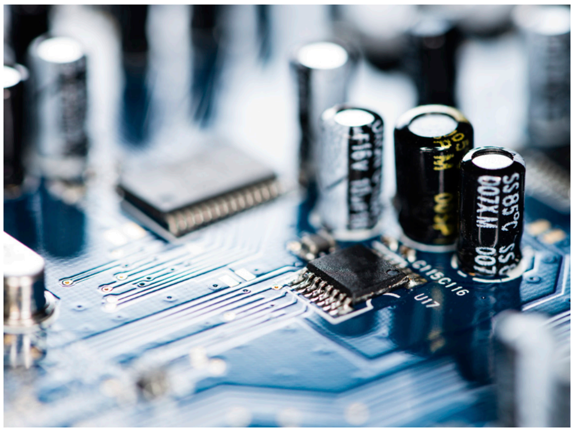
Other considerations for your year-end tax planning might include the Remodel-Refresh Safe Harbor, De Minimis Safe Harbor, writing off bad debt, and planning for retirement contributions.

Qualified Small Business Stock for Investors and Entrepreneurs

By Renata Dabrowska

If you are the founder of a start-up company, or have invested in one, you may have already heard about Qualified Small Business Stock (QSBS) and the gain exclusion available under IRS Code Section 1202. It has been a hot topic for investors and entrepreneurs for the last few years. The reason for the increased interest in this tax provision is the large tax savings available to taxpayers when selling shares of QSBS. In recent years Congress wanted to incentivize more investment in small businesses, so it has progressively increased the amount of gain exclusion.

What Sec. 1202 allows you to do, under specific conditions, is to exclude all or part of a gain from taxable income when selling QSBS. Up to $10 million or 10 times the basis in the stock can be excluded, whichever is larger. With a 20% federal capital gain rate, tax savings on a $10 million gain could amount to $2 million. And if the state in which you operate follows the federal tax treatment, like New York does, additional state tax savings will follow.



To qualify as QSBS, the stock has to meet the following conditions:

- It needs to be stock in a domestic C corporation. Shares in S corporations, interests in partnerships, and LLCs do not qualify. It is possible to convert an LLC to C corporation and benefit from this provision.
- The shares must have been issued after August 10, 1993.
- The shares must be acquired at its original issue (not from a secondary market).
- The company must meet the definition of a small business (i.e., total gross asset at all times before the date the shares are acquired must be less than $50 million).
- The company must be engaged in active trade or business; some industries are excluded.

The amount of gain eligible for exclusion depends on when you acquired the QSBS shares.

- Stock acquired between 8/11/93 and 2/17/09 is eligible for 50% gain exclusion, subject to a 7% AMT addback.
- Stock acquired between 2/18/09 and 9/27/10 is eligible for 75% gain exclusion, subject to a 7% AMT addback.
- Stock acquired after 9/28/10 is eligible for 100% gain exclusion without any AMT addback.

The taxpayer needs to hold the shares for at least five years from the date he or she acquired them (if shares are from stock options, the acquisition date is the exercise date, not the date of grant).

QSBS treatment can provide significant tax savings to investors. In addition to the benefits available under Section 1202, there are other sections which may provide benefits as well, including Section 1045 for the rollover of gain from one QSBS to another. If you are planning to invest in small businesses—including technology start-ups—a qualified tax accountant can help you learn how to use QSBS to your advantage.

What Is Portability of the Estate Tax Exemption?

By Cliff Acheson

We often see clients whose spouse has recently passed away to help them with the related tax issues. Due to recently issued IRS guidance, the ability to exclude more of an estate from the estate tax is now available for certain taxpayers, which can help individuals pass more of their estate to their heirs, with less going to the government.

The estate tax return reports to the IRS the value of the entire estate owned by a person at the time of his or her death. For a person who passed away in 2017, the estate tax, at a maximum rate of 40%, will be assessed if the value of the estate exceeds $5,490,000. Even if at present the size of the estate is less than the filing threshold limit, if there is a surviving spouse, there are reasons to file a federal estate tax return that can be beneficial in the long term.

The main reason to file an estate tax return if the estate is under the threshold is to claim the deceased spouse's unused exclusion amount for the surviving spouse. The IRS rules provide that the surviving spouse can transfer the unused federal estate and gift tax exclusion to him or herself. This is referred to as "portability" of the deceased spouse's unused exclusion. In order to accomplish this, a complete estate tax return must be timely filed for the deceased's estate (generally, within nine months of the date of death). This due date recently has been relaxed, but only temporarily. Portability can significantly reduce the tax burden of the surviving spouse and allow the family to receive the inheritance instead of paying the government additional taxes.

The advantage of filing the estate tax return for portability is clear, and the IRS recently has issued guidelines to make it easier to file for portability if you did not previously file a timely return solely to elect portability. Under the updated guidelines, the IRS will allow the estate of a decedent who died after December 31, 2010, and was not required to and did not file an estate tax return, to make a retroactive portability election before January 2, 2018, or on the second anniversary of the decedent's date of death, whichever is later. If your spouse passed away in the last six years, you now have an additional opportunity to file for portability, maximizing your estate tax savings.

Tax law changes regularly, and Congress may make changes that will affect the estate tax rates, exemptions, and portability in the future. You now have the opportunity to take advantage of recently revised guidance to elect to move the unused exclusion of your deceased spouse into your estate. This opportunity may increase the amount you can exclude from estate tax to benefit your heirs. Contact us if you would like to explore this option.

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Financial Reporting Framework for Small- and Medium-Sized Companies

By Katie Fisher

Non-public small- and medium-sized entities that are not required to use generally accepted accounting principles (GAAP) have another accounting option for preparing streamlined, relevant financial statements: the Financial Reporting Framework for Small- and Medium-Sized Entities (FRF for SMEs). The FRF for SMEs is a type of special purpose framework that has been developed by the American Institute of CPAs (AICPA) and undergone public exposure and professional scrutiny. It draws upon a blend of traditional methods of accounting with some accrual income tax methods. The FRF for SMEs serves as a cost-beneficial solution for owners, management, and others who require financial statements that are prepared in a consistent and reliable manner.

There is no standard definition of a small- or medium-sized entity (SME) in the United States. The AICPA task force and staff who developed the framework deliberately did not develop quantified size criteria for determining what constitutes an SME because such criteria is not a useful way to describe the types of entities for which the framework is intended. Furthermore, while the framework is aimed at owner-managed SMEs, the AICPA does not intend to scope out entities that may not be owner-managed from using it. Entities that have operational management who are not the owners may also find this framework to be best-suited for their needs.

As an alternative framework available for SMEs that are not required to report under GAAP, the framework includes many cost-saving accounting principles and measurement criteria. For instance, the framework uses historical cost as its measurement basis and steers away from complicated fair value measurements. Additionally, the framework does not require complicated accounting for derivatives, hedging activities, or stock compensation, nor does it require impairment testing for long-lived assets, intangibles, or goodwill. Under the framework, revenue recognition criteria are broad and principles-based, and there is no concept of a variable interest entity. Many entities will find that adopting this framework will provide many benefits for their financial reporting needs.

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