SCIARABBA WALKER &CO LLP

CERTIFIED PUBLIC ACCOUNTANTS
BUSINESS CONSULTANTS

Dear Valued Client,

The potential for tax reform has been a hot topic lately, but changes have not yet passed through the legislative process. Unfortunately, this creates some uncertainties for year-end tax planning. If tax reform occurs, it may include lower tax rates on business income in future years. This would cause deductions to be worth more in 2017, taken at the higher tax rate. 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*

  Code Section 179 allows for the expensing of qualified business equipment property purchased (e.g., machinery, computers, furniture, air conditioners, heating units, certain software and vehicles, etc.). The property can be new or used. Certain improvements to buildings may also qualify for the deduction (improvements to Qualified Leasehold Property, Qualified Restaurant Property, or Qualified Retail Property). For tax years beginning in 2017, the expensing limit is $510,000 and the investment ceiling limit is $2,030,000.

- *Bonus Depreciation*

  For 2017, the Code Section 168(k) bonus depreciation provision allows businesses to write off 50% of qualifying new equipment property placed in service during the year. Certain improvements to the interior of nonresidential buildings, or Qualified Improvement Property, may also be eligible for bonus depreciation. Bonus depreciation can be used when the Section 179 deduction is depleted. The percentage of bonus depreciation allowed is set to decrease to 40% in 2018 and 30% in 2019. If you are considering large capital purchases or renovations, 2017 is the last year the 50% bonus depreciation will be available. Assets must be placed in service by December 31, 2017 to qualify.

- *De Minimis Safe Harbor*

  The De Minimis Safe Harbor allows businesses to expense purchases of materials, supplies, and assets under a certain dollar threshold provided 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); the business must have a written capitalization policy in place as of January 1, 2017 (or earlier) in order to qualify for the safe harbor of $5,000. The threshold for businesses without audited financial statements is $2,500 per invoice or item (as substantiated by an invoice) for the 2017 tax year. Businesses without a consistent capitalization policy should establish one by January 1, 2018 in order to qualify for the De Minimis Safe Harbor rules for 2018.

- *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.

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- *Bad Debt Write-Offs*

  A deduction is allowed for worthless receivables for businesses reporting on the accrual basis of accounting. To take advantage of this deduction, businesses should analyze accounts receivable at year end and write off any amounts deemed worthless.

Please note the 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. 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*

  Businesses considering large equipment purchases should monitor the status of the tax reform plan being considered by Congress. The current version proposes immediate expensing (with no set dollar limit) of all depreciable asset investments (except buildings) made after September 27, 2017. The law would expire after five years. If enacted, this law would be a major incentive for some businesses to make large equipment purchases in late 2017.

  Currently, the domestic production activities deduction (DPAD) is generally available to manufacturing and construction businesses producing goods in the United States. If the tax reform plan as it currently stands before Congress is enacted, DPAD would no longer be available next year. Therefore, if your business qualifies for DPAD for the 2017 tax year, consider ways to increase the deduction. For example, if the 50%-of-W2-wages limitation applies, consider increasing 2017 W2 income using bonuses to owners/shareholders whose compensation is allocable to domestic production receipts.

  Other potential provisions of the current tax reform plan include the following:

  - Provide a maximum 25% tax rate for “small” and family-owned businesses conducted as sole proprietorships, partnerships, and S corporations.
  - Reduce the corporate tax rate to 20% (down from the current top rate of 35%).
  - Partially limit the deduction for net interest expense incurred by C corporations.
  - Repeal most deductions and credits, but retain the research and low-income housing credits.

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 subsequent years. At this time, tax reform has not been enacted, but we will alert you of any changes if and when they become law. 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