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AUGUST 2014

Small Business Group CONTACT

8/15
- Payroll tax deposit due if liability is over $2500

8/20
- Sales tax reports due

OFFICE HOURS

Monday - Thursday
8 am to 5 pm

CLOSED FRIDAYS
(May through December)

Inside this issue:

Give away assets based on basis

Suppose you own assets that you want to pass along to other family members. There's an easy way you can do it.

Strategy: Make direct gifts to the family members. In other words, decide who should get what and then just simply give it to them. Keep in mind that the basis of assets that you gift away can make a big tax difference.

Here's the whole story: Under the annual gift tax exclusion, you can give gifts to each recipient up to a specified amount without any federal gift tax consequences. The exclusion amount, which is subject to indexing based on inflation, is $14,000 for 2014 (the same as it was in 2013). Therefore, you can give someone assets valued at up to $14,000 this year completely free of gift tax. You don't even have to file a gift tax return.

The annual exclusion is doubled for joint gifts made by a married couple or when one spouse consents to a gift by the other. For instance, a couple could give a child or a grandchild up to $28,000 free of gift tax in 2014.

However, in this case, you may be required to file a gift tax return. If the amount of a lifetime gift exceeds the annual gift tax exclusion, it is sheltered by the unified federal estate and gift tax exemption. For 2014, the exemption effectively shelters up to $5.34 million from tax. However, using the exemption for lifetime gifts erodes the tax shelter available for your estate.

Taxes should be a prime consideration in your gift-giving decisions. Significantly, the recipient generally carries over your tax basis in the gifted asset, except if the property has declined in value. In that case, the recipient is stuck with a basis equal to the lower of your basis or the fair market value of the assets on the date of the gift.

Follow these two rules of thumb for gifts to low-bracket family members:

1. Give away low-basis property that is appreciating in value. When the property is sold, the gain will be taxed to the recipient in his or her low tax bracket.

2. Keep high-basis property that is declining in value. If you give this property to a low-bracket family member, there will be a small loss, or no loss at all, because the recipient's basis is the FMV. Any loss will be of limited tax value. However, if you keep the property and sell it yourself, you can claim a capital loss that can be used to offset capital gains plus up to $3,000 of ordinary income.

Example: You own stock with a basis of $25,000 that is now worth $15,000. If you give the stock to your granddaughter, her basis will be $15,000.

Alternatively, you can sell the stock yourself and realize a $10,000 capital loss. Then you can give your granddaughter $15,000 in cash. She's basically in the same position as if you gave her the stock, but you've improved your tax situation.

Tip: Don't let the "tax tail wag the dog," but you should not ignore the tax bite either. Consider the economic implications.

Small Business Tax Strategies — July 2014

Semi-Weekly 941 Deposit Due Dates

Payroll Check Date:	Deposit is Due on:
Aug 1	Aug 6
Aug 2-5	Aug 8
Aug 6-8	Aug 13
Aug 9-12	Aug 15
Aug 13-15	Aug 20
Aug 16-19	Aug 22
Aug 20-22	Aug 27
Aug 23-26	Aug 29
Aug 27-29	Sep 4
Aug 30-Sep2	Sep 5

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Max out on Section 179 deduction

"Should you buy new equipment this year if the cost puts you over the current first year deduction limit?"

While legislative efforts to extend a six-figure Section 179 deduction seem to have stalled in Congress, business owners are left in a quandary. Should you buy new equipment this year if the cost puts you over the current first year deduction limit?

Strategy: Wait to see what happens. The prospects for a Section 179 extension should appear clearer after the November midterm elections.

Here's the whole story: Under Section 179, your business can currently deduct the cost of qualified business property placed in service up to an annual limit. For this purpose, "qualified business property" includes most types of tangible personal property, both new and used, and software.

Congress has toyed with the annual limit over the past 15 years (see box). Going back to 2000, the maximum Section 179 deduction was only $20,000. After legislation increased the limit to $250,000 in 2008, Congress increased it again to $500,000 in 2010. Subsequently, the $500,000 maximum deduction was preserved for 2010-2013. But the clock ran out on six-figure deductions. For tax years beginning 2014, the maximum Section 179 deduction has reverted to only $25,000.

There are two other key tax law rules that may affect your equipment-buying decisions.

1. Annual income limit: The Section 179 deduction can't exceed the net taxable income from your business activities. For instance, if your company shows a $20,000 profit this year, your deduction would be limited to $20,000, even though the maximum allowance will be $25,000, at worst. The limit applies to the net taxable income from all your business activities.

2. Annual dollar threshold: If the total cost of property placed in service during the year exceeds an annual threshold, the maximum Section 179 deduction is reduced on a dollar-for-dollar basis. This dollar threshold has also been adjusted by legislation coordinated with the maximum Section 179 allowance. For property placed in service in tax years beginning in 2014, this threshold is only $200,000, unless it's changed by Congress.

For example, suppose in 2014 your company places equipment in service costing $210,000. As things stand now, your Section 179 deduction would be reduced by the $10,000 excess above $200,000 to just $15,000. However, if you keep your equipment purchases below the $200,000 threshold, your company can claim the maximum $25,000 deduction (subject to the annual income limit).

Of course, to the extent that you exceed the maximum Section 179 allowance, you can still claim "regular" depreciation deductions under the Modified Accelerated Cost Recovery System (MACRS). Let's assume that you place $35,000 of equipment in service in 2014, so you're $10,000 above the Section 179 deduction limit. If the equipment is seven-year property, the applicable percentage for the first year under MACRS is 17.29%. This entitles you to a $1,729 deduction in addition to the $25,000 Section 179 write-off.

Tip: Congress is also debating an extension of the 50% bonus depreciation break which expired at the end of 2013.

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Section 179 deductions through the years

Tax year equipment placed in service	Maximum annual deduction	Annual dollar threshold
2000	$ 20,000	$200,000
2001 – 2002	$ 24,000	$200,000
2003	$100,000	$400,000
2004	$102,000	$410,000
2005	$105,000	$420,000
2006	$108,000	$430,000
2007	$125,000	$500,000
2008 – 2009	$250,000	$800,000
2010 – 2013	$500,000	$2 million
2014	$ 25,000	$200,000