

# Tax Tips

Small Business Edition • Winter 2014

## Perks and Parties

### *How year-end gifts are taxed*

During the holiday season, it's not uncommon for businesses to treat employees with vacation time, holiday parties and bonuses. The type of gift—not the reason for it—determines whether it will be taxable to your employees.

Fruit baskets, turkeys, wine or other inexpensive items are considered noncash gifts. As long as the noncash gift is of nominal value and given infrequently, the gift will be considered a de minimis fringe benefit and will not be taxable.

Expensive noncash gifts, such as watches or iPads, are considered taxable as wages. Cash, checks and gift certificates are also considered taxable as wages. This means that the fair market value of the gifted item or amount must be added to the employee's payroll wages and is subject to typical payroll taxes including FICA and FUTA.

Another way to show appreciation to your employees is by throwing a company party. Good news! The cost is 100% deductible to the business—not just 50% deductible, like typical meals and entertainment expenses.

The party cannot be lavish and extravagant and must be primarily for employees who are not highly compensated. Attending the party is a nontaxable de minimis fringe benefit to your employees.



## Bike to Work

### *Commuting reimbursement could be a win-win*

An employer can reimburse reasonable expenses of qualified bicycle commuting. Reasonable expenses include the purchase of a bicycle, improvements or repairs to a bicycle, and storage. The IRS allows you to offer your employees a nontaxed employee fringe benefit of \$20 per qualified bicycle commuting month during that year. A qualified commuting month is any month the taxpayer uses the bicycle regularly for a substantial portion of the travel between his or her residence and place of employment.

Why should you offer this benefit to your employees? Bicycling provides the doctor recommended 30 minutes of moderate exercise a day, which keeps employees fit. Healthy workers are almost three times more effective at work than unhealthy workers, thereby reducing health insurance costs and lowering unproductive sick days. And, offering more optional benefits to your employees is a great morale booster!

## Section 179

### *Limited deduction available for 2014, but still valuable*

Section 179 allows you to immediately deduct the entire purchase of new or used depreciable business equipment, instead of capitalizing it and depreciating the asset over its useful life—which usually is several years. For 2012 and 2013, this deduction was allowable up to \$500,000. Because Congress failed to extend the provision, however,

Section 179 reverted back to the deduction limit of \$25,000 going forward.

Most small- and medium-sized businesses will remain unaffected by this lower limitation. Large businesses shouldn't worry too much though. Many experts believe that Congress at the last minute, will ultimately decide to pass a tax extender, thereby increasing this deduction.

I will notify you of further developments.

## New Retirement Account Available

### *Simple way for your employees to start saving*

The U.S. Department of the Treasury has developed the *myRA* program, short for My Retirement Account. This new Roth IRA retirement savings account is for individuals looking for a simple, safe, and affordable way to start saving. Employees can open an account with as little as \$25 and contribute \$5 or more every payday. Balances in *myRA* will never go down, and there are no fees involved.

Initially, *myRA* is available through employers and the investment held in the account will be backed by the U.S. Treasury. Accounts are available to anyone who has an annual income of less than \$129,000 a year for individuals and \$191,000 for couples. This program is designed for savers who do not have access to an employer-sponsored retirement savings plan.

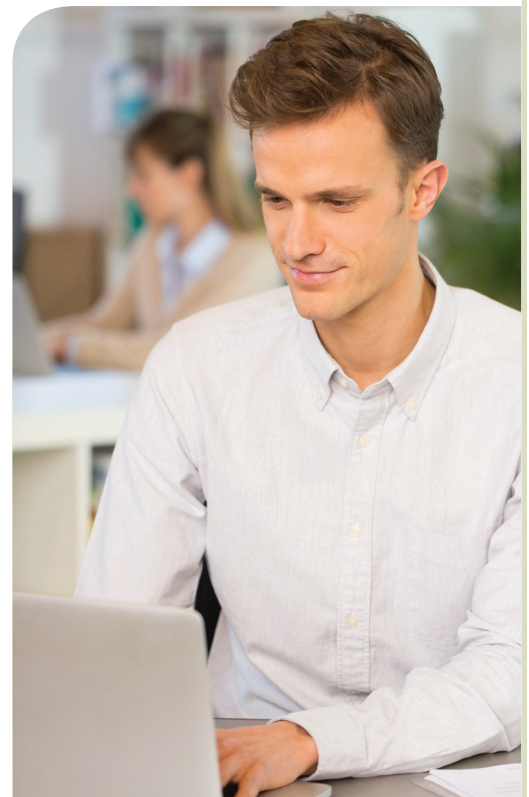
The *myRA* investments will earn interest at the same variable rate as the Government

Securities Investment Fund in the Thrift Savings Plan for federal employees. Savers may voluntarily roll over *myRA* to private-sector retirement accounts at any time. Once a saver's *myRA* reaches \$15,000, or after 30 years, the balance will be transferred to a private-sector retirement account.

Offering this program to your employees is simple. There's no employer contribution, match or account administration. All you need to do is:

- Share information about *myRA* with your employees using materials and resources made available online.
- Process employees' *myRA* payroll direct deposit requests.

In order to begin, have employees sign up for a *myRA* online account. Then set up initial payroll direct deposit and ongoing direct deposit to your employees' *myRAs*. Visit [treasurydirect.gov/readysavegrow](http://treasurydirect.gov/readysavegrow) for more information.



## Health Insurance

### *Am I required to provide coverage to my employees?*

While no employer has to offer health insurance coverage, some larger businesses may have to make an Employer Shared Responsibility Payment. This could apply to employers of different sizes at different times.

If your business has:

- **Fewer than 50 employees**, you're not subject to the Employer Shared Responsibility parts of the law any year. You may use the SHOP Marketplace to offer coverage for your employees.
- **At least 100 employees**, starting in 2015, you must provide affordable healthcare coverage that provides minimum essential coverage to your full-time employees. If you don't and at least one of your full-time employees receives a premium tax credit for purchasing individual coverage on one of the new Exchanges, you may be subject to a penalty called an Employer Shared Responsibility Payment.
- **At least 50, but fewer than 100**. You may qualify for transitional relief until 2016 (see below). At that time you must provide minimum essential coverage to your full-time employees or be subject to the employer shared responsibility payment.

In order to be eligible for transitional relief, an employer must certify that it meets the following conditions:

- Employ on average at least 50 full-time employees, but fewer than 100 full-time employees during 2014.
- Hasn't reduced the size of its workforce or the overall hours of service of its employees unless there is a bona fide business reason.
- Did not eliminate or materially reduce the health coverage, if any, it offered as of February 9, 2014.

The Employer Shared Responsibility Payment is calculated using different methods and is either \$2,000 or \$3,000 per employee per year depending on the circumstance. You don't have to make a payment on the first 30 full-time equivalent employees. Employer Shared Responsibility Payments are not tax deductible.

Only employers who have at least 50 full-time equivalent (FTE) employees (or a mixture of full-time and part-time employees that's equal to at least 50 full-time employees) are subject to the Employer Shared Responsibility Payment. I can help you with these calculations.



## Health Insurance

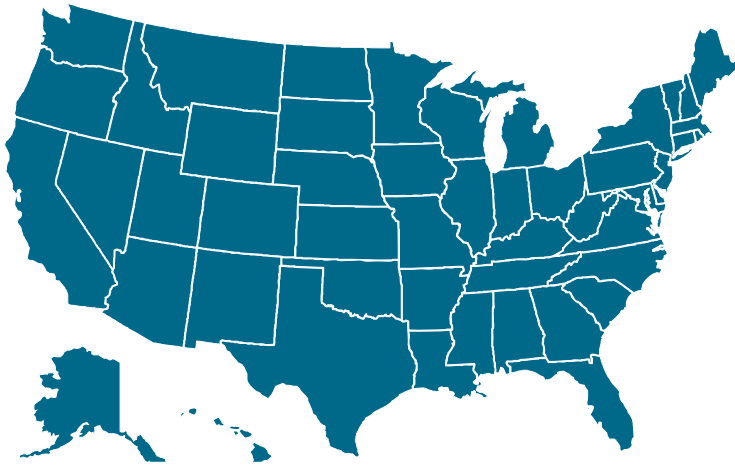
### *When must my business report coverage?*

The *Affordable Care Act* requires large employers (at least 50 employees) to file information returns with the IRS and provide statements to their full-time employees about the health insurance coverage the employer offered.

Information reporting is voluntary for calendar year 2014. Beginning in 2016, a large employer must file information returns with the IRS and provide statements to employees that report information about its offer of health coverage to its full-time employees for calendar year 2015.

Even if your company qualifies for transitional relief until 2016 (see the left-side article *Health Insurance – Am I required to provide coverage to my employees?*), you're still required to file informational returns with the IRS for calendar year 2015.

The large employer will be required to complete Form 1094-C, *Transmittal of Employer-Provided Health Insurance Offer and Coverage Information Returns*, and Form 1095-C, *Employer-Provided Health Insurance Offer and Coverage*.



## Doing Business in More than One State?

*It's time to take a closer look*

For a long time, "doing business in another state" simply meant setting up shop in a state other than your state of residency. These days, there's a lot more to it. Do you have customers in other states? Do you sell your goods online? Do you have an employee who telecommutes from another state?

The state where your principal business activities occur is where you should register your business. If you want to operate in another state, generally you should obtain a certificate of authority to do business from that state's Secretary of State. A certificate of authority usually costs about \$150, but can vary.

How a state defines business activities and what is considered "doing business" varies state to state. For detailed information on a particular state's requirements, contact that state's business registration office or state

Secretary of State. Examples of what constitutes doing business in a state may include:

- Establishing physical presence by opening a new business location.
- Hiring employees.
- Soliciting business, which could mean using the Internet, mail, telephone, or print or media advertisements to conduct sales.

Many states will subject your business to state and local income and sales taxes. Due to budget strains, many states are now enforcing their laws in order to raise revenue.

Some states maintain a list of safe harbor activities that don't constitute "doing business." A type of activity that is often included on these lists is maintaining a bank account within a state's borders. However, many state statutes don't specifically define what they consider to be "doing business" in their jurisdiction. It usually depends on the facts of each case. Let me know if you think you may be doing business in more than one state. I can take a look at your situation and the possible state tax implications.

## Expired Tax Provisions

*Certain items no longer available for 2014*

There are quite a few tax provisions that expired last year. It's uncertain whether Congress will act in time to make these benefits available for 2014. Some of these provisions include:

- The parity for the exclusion from income for employer-provided mass transit passes and parking benefits.
- The credit for research and experimental expenses.
- The work opportunity credit.
- The provision to treat qualified leasehold improvement property, qualified restaurant property, and qualified retail improvements as 15-year MACRS property.
- The additional first-year depreciation (bonus depreciation).
- The employer differential wage payment credit for payments to individuals performing active duty military service.
- The election to deduct certain film and television production costs.
- The deduction for energy efficient commercial buildings.
- The credit for the construction of new energy efficient homes.
- The manufacturer's credit for energy efficient appliances.

It's possible that some of these provisions may be extended due to late Congressional action. If that happens, I'll let you know.