

# MANAGEMENT & TAX CONCEPTS



## MAXIMIZE YOUR BUSINESS'S 2017 TAX SAVINGS

Claim all the breaks you're entitled to when filing your return

WINTER 2018

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**TAX**

**2018**

## Maximize your business's 2017 tax savings

Claim all the breaks you're entitled to when filing your return

**Even after 2017 draws to a close, there are still moves business owners can make to save on 2017 taxes. One is to be sure to claim all the tax deductions and tax credits you're allowed to make.**

Here are a few areas to examine.

### FIXED ASSET PURCHASES

You can expense up to \$510,000 in qualified fixed assets and equipment purchased and placed in service in 2017. These include a wide range of assets such as computers, software, office furniture, and heating and air conditioning units.

Known as Section 179 expensing, this strategy may offer significant tax advantages relative to depreciation. By writing off fixed assets during the year in which they're placed in service, you'll realize a larger deduction during the early years of ownership. However, the Sec. 179 expensing deduction phases out on a dollar-for-dollar basis once your 2017 asset purchases reach \$2.03 million.

You also may benefit from bonus depreciation on qualifying property purchased and placed in service in 2017. Specifically, bonus depreciation is available for new Modified Accelerated Cost Recovery System (MACRS) property with a recovery period under 20 years. Bonus depreciation applies to 50% of the cost of qualifying property purchased and placed in service in 2017.

### DOMESTIC PRODUCTION ACTIVITIES

If your company performs manufacturing activities domestically, you might be able to take advantage of the Sec. 199 deduction. Also known as the domestic production activities deduction (DPAD), it's intended to boost manufacturing activity and employment here at home. You may qualify for the Sec. 199 deduction if your business performed any of the following activities domestically in 2017:

- Building and construction,
- Electricity, potable water or natural gas production,
- Film and video production (if at least 50% is done in the United States),
- Architectural or engineering services for domestic construction projects, and
- Tangible personal property production (except land and buildings).

The Sec. 199 deduction is equal to 9% of the lesser of qualified production activities income or taxable income. It's capped at 50% of W-2 wages paid by the taxpayer that are allocable to domestic production gross receipts.

### THE RESEARCH CREDIT

The research credit (often referred to as the "research and development" credit) is frequently overlooked because businesses mistakenly believe

## Last-minute deduction: Make retirement plan contributions

Even when the calendar has turned to 2018, you might still be able to take steps to lower your 2017 tax bill beyond simply claiming all the breaks you can. For example, if you offer a 401(k), Simplified Employee Pension (SEP) or profit-sharing plan, you have until your 2017 tax-filing deadline to make deductible contributions to employee accounts. With a SEP, you can even set up the plan in 2018 and still make 2017 contributions.

Depending on your business entity type, the tax-filing deadline for calendar year 2017 is March 15 (S corporations, partnerships and multimember limited liability companies, or LLCs) or April 17, 2018 (C corporations, sole proprietorships and single-member LLCs treated as disregarded entities), unless you receive an extension. Contributing to your employees' retirement plans can be a smartway to help them save for retirement while getting a last-minute business tax deduction.

it's available only to tech or research firms. But a wide range of business activities can qualify for this valuable tax break.

Among the expenses that typically qualify are salaries paid to employees working on research-related activities, fees paid to contractors, and supplies used when performing certain activities.

Up to 9.1% of eligible research expenses can be applied dollar-for-dollar against federal income tax liability.

If your company had less than \$5 million in gross receipts and owes little or no income tax for 2017, you may be eligible to use the research credit to offset up to \$250,000 in payroll taxes.

### THE WORK OPPORTUNITY CREDIT

If your business hired members of certain targeted groups during 2017, you might qualify to claim the Work Opportunity Tax Credit (WOTC) on your 2017 return. These groups include certain veterans, ex-felons, and recipients of food stamps and long-term unemployment benefits, among others. The size of the credit depends on the targeted group, hours worked and wages paid.

But you must have obtained certification that an individual was a member of the targeted group

and file Form 8850, "Pre-Screening Notice and Certification Request for the Work Opportunity Credit," with their respective state workforce agency within 28 days after the eligible worker starts work. (Contact your CPA or your individual state workforce agency for more information.)



### KEEP AN EYE ON TAX REFORM

Tax reform legislation could affect some of these breaks. Contact your tax advisor for the latest information. •

# Be prepared to put your business on the market tomorrow

**Life has its unexpected twists and turns, and not everyone makes life decisions years in advance. Consider, for example, these scenarios that might prompt you to want to sell your business in, say, the next six months: You fall on ill health and can't continue as you have been. Your spouse gets a job in another state and together you decide to make a new start somewhere else. You decide, somewhat spontaneously, that now is the time to retire, even though you had planned to work a few more years.**



In order to have the freedom to make such life changes expediently, you should take steps now to be ready to put your business up for sale.

## WHO'LL BE ON YOUR SALES TEAM?

Your business is probably the most valuable thing you own, so it's important to begin the sale process with your eyes wide open. In most cases, the first step is to put together a team of experts who'll help you through the selling process. A business broker will serve as the quarterback of your sales

team. A broker can guide you in finding and qualifying prospective buyers, marketing your company to these prospects, setting a price for the business, and closing the sale. An attorney, an accountant and a valuation professional, each experienced in business sales and purchases, should round out your team.

Don't rush: You'll want to exercise caution in building your team. These individuals will play a critical role in the success of your business sale.

## WHO ARE YOUR POTENTIAL BUYERS?

Understanding the different types of business buyers is essential to formulating your sale strategy. Here are some of the main types:

- A *complementary* buyer is a company that sells products and services that complement or enhance those you sell.
- A *strategic* buyer is usually a competitor that's looking for companies where it can add value to their products and services.
- *Family and heirs* often present unique challenges, such as decisions involving who will (or won't) be able to buy shares, who will occupy positions of leadership, and whether or not the company will be sold at a family discount.

Lastly, don't forget about your employees and managers. An internal sale could provide unique planning opportunities through the use of an Employee Stock Ownership Plan. And that will help ensure continuity for customers and staff.

## WHAT WILL BUYERS EXAMINE?

Your specific goals for the sale of your business will hinge primarily on why you're selling. For example, if you mainly want to keep the business in your family and ensure a smooth transfer of ownership to your heirs, you need to identify the next



generation of leaders and start grooming them years in advance of the sale. But if your goal is to sell the business to outsiders at the highest possible price, you should be taking steps long before the sale to boost the company's value to potential buyers.

In considering companies to purchase, most buyers will look at quantifiable measurements that will help them gauge their potential return on investment. Thus, the best way to increase your company's value to potential buyers — and boost its sale price — is to focus on the value drivers that will be important to them.

### IS YOUR BUSINESS APPEALING, FINANCIALLY AND ORGANIZATIONALLY?

Virtually all buyers will want to know about your business's financial health. They'll want to see a history of consistent cash flow, sales and earnings. You'll need to determine which key performance indicators are most important to your company's financial health and focus on improving them before you list your business for sale.

Human resources are usually the next area potential buyers examine. They'll want to see a strong executive team that can keep things running smoothly after you've left. And they'll want a skilled and stable workforce in place with relatively low employee turnover.

Your customer base also will enter the picture. Most buyers seek companies with a diversified base and low degree of customer concentrations. If your sales and earnings are heavily dependent on a handful of large customers, this could be a big red flag for buyers.

Last, but not least, business buyers usually want to acquire companies they can grow. Thus, you generally need to be able to show them a plan that demonstrates how they can grow the business after they buy it.

### THE BIG EVENT

The process of selling a business is complex, with many potential pitfalls for owners who've failed to do their homework. Do what you can now to get ready for the "big event." •

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## What you should know about making estimated tax payments

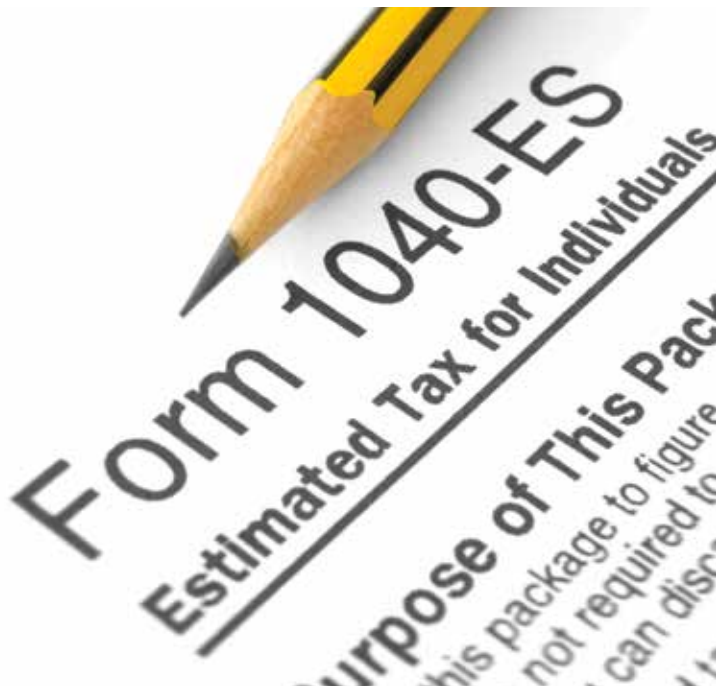
**People who receive a regular paycheck from an employer often don't think too much about paying income taxes. That's because income taxes are usually withheld from their gross pay and submitted to the IRS by their employer.**

However, some individuals — typically sole proprietors, independent contractors and partners and LLC members — don't have taxes automatically withheld from their income. They may be required to pay income tax via a different system that's been

set up to ensure that the IRS (and, as required, their state) receives tax payments from them regularly.

### INCOME WITH NO WITHHOLDING OR FROM MULTIPLE SOURCES

Income for which there is usually no withholding can take many different forms, including business and self-employment income, investment dividends and interest, capital gains, alimony and prizes. If you receive any of these income



types, estimated tax payments may be required in order to avoid penalties.

What about individuals whose income comes from multiple sources? With some, taxes have been withheld and, with others, taxes have not been withheld. It's possible to artificially inflate the withholding from one source to cover the tax attributable to the others.

For instance, if you're an employee with a consulting business on the side, you may direct your employer to withhold an extra amount to cover the tax you'll owe on the consulting income. This strategy also is appropriate for an S corporation shareholder with income derived from both a salary and the business's flow-through earnings.

## FIGURING OUT YOUR ESTIMATED PAYMENTS

There are different ways to determine how much you should pay in estimated tax. For many people, the simplest way is to pay based on the prior year's tax. For those whose income is earned relatively evenly throughout the year, and doesn't fluctuate dramatically from year to year, this method may be preferred.

If your income is earned somewhat sporadically, however, you may prefer to use the annualized method. Under that scenario, you "pay as you go" based on your current-year income.

Regardless of the method chosen, estimates are due four times a year: on the 15th of April, June and September of the current tax year and January of the following tax year.

So exactly how much is required to be paid in estimated taxes? According to the IRS, at least 90% of your eventual tax liability for the current year must be paid — or 100% (110% for some taxpayers) of your tax liability from the previous year.

The required amount may be paid through a combination of estimates and withholding. Suppose, for instance, that based on your 2017 tax liability you owe \$10,000 for 2018 estimates, and you won't have any withholding this year. So long as you pay \$2,500 per quarter, then regardless of the amount of your eventual tax liability for 2018, you won't incur a penalty for underpayment of estimated tax. Alternatively, if your 2018 withholding is \$4,000, your required quarterly estimates drop to \$1,500. Either way, you'll still owe the extra tax.

*For many people, the simplest way is to pay your estimated taxes based on the prior year's tax.*

## PAY THE RIGHT AMOUNT

It's critical not only to pay estimated taxes on time, but also to accurately determine how much each estimated tax payment should be. A qualified tax advisor can help you determine your estimated tax obligations and compute the right amount of tax to pay. •

# Do you need to file a gift tax return?

**In the coming weeks, many individuals will start the process of getting ready to file their 2017 federal income tax returns. Most people focus on preparing Form 1040, but if you made gifts in 2017, you also might have to file Form 709: a gift tax return.**

## WHEN FORM 709 MUST BE FILED

The IRS has detailed specific circumstances in which Form 709 must be filed. In general, you must file this form if you gave gifts exceeding the \$14,000 annual gift tax exclusion to any person in 2017, other than your spouse.

Conversely, Form 709 generally doesn't have to be filed if you didn't give more than \$14,000 last year to any individual. And if you made tax-deductible gifts to qualified charitable organizations in 2017, you generally don't have to file a gift tax return as long as you transferred your entire interest in the property you donated.

There are a few nuances in regard to gift tax return filing requirements. One of these has to do with gifts given as remainder interests in a trust. If you gave gifts of this kind in any amount in 2017, you generally must file Form 709.

Also, if you made gifts that you want to split with your spouse to take advantage of your combined \$28,000 annual gift tax exclusions, you'll generally be required to file a gift tax return. Gifts of jointly held property or community property are treated as though they were made equally (50%) by both spouses. Thus, unless you gave an individual more than \$28,000 from a joint account or community property asset, you may not have to file a gift tax return.

Note that you may have an obligation to file Form 709 even if no gift tax is ultimately due.



## HOW TO HANDLE HARD-TO-VALUE ASSETS

Perhaps you gave away assets last year that are hard to place a specific value on. Examples of these might be fine art or shares in a family-owned business.

In either of these scenarios, it may be wise to file a gift tax return — even if doing so isn't required. This will begin the statute of limitations should the IRS decide to challenge the value of the gift.

## NEED ADVICE?

The deadline for filing (or extending) Form 709 and paying any gift tax due is April 17, 2018, for tax year 2017. Contact your tax advisor if you have more questions about filing a gift tax return. •

