

# Tax Tips

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## Depreciable Business Equipment *What can you deduct under §179?*

Purchasing equipment is simply part of running a business. Electing to immediately deduct the entire business purchase instead of capitalizing it and depreciating the asset over its useful life, which is usually several years, could provide substantial tax relief for business owners, especially those who are purchasing start-up equipment.

To qualify for the deduction, property must have been acquired for business use and by purchase. Tangible property that qualifies for the deduction includes:

- Machinery and equipment.
- Property contained in or attached to a building (other than structural components), such as refrigerators, grocery store counters, office equipment, printing presses, testing equipment and signs.
- Gasoline storage tanks and pumps at retail service stations.
- Livestock, including horses, cattle, hogs, sheep, goats and mink.

Generally, off-the-shelf computer software also qualifies for this deduction, as does qualified real property, including leasehold improvement property, restaurant property or retail improvement property.

Generally, you cannot claim this type of deduction if the expense is being used for:

- Land and improvements.
- Leased property.
- Property used for lodging.
- Energy property.

The total amount you can deduct under §179 for most property placed in service in tax years beginning in 2016 generally cannot be more than \$500,000.

If you'd like to deduct a business equipment purchase but aren't sure whether it qualifies for the deduction, please feel free to consult me.



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## **IRS Raises De Minimis Safe Harbor Threshold**

*Life just got easier for certain small business owners*

The IRS simplified the paperwork and record-keeping requirements for small businesses by raising the safe harbor threshold for deducting certain capital items from \$500 to \$2,500. This change affects businesses that do not maintain an applicable financial statement (i.e., audited financial statement). It applies to amounts spent to acquire, produce or improve tangible property that would normally qualify as a capital item.

The new \$2,500 threshold applies to any such item substantiated by an invoice. As a result, small businesses will be able to immediately deduct many expenditures that would otherwise need to be spread over a period of years through annual depreciation deductions. The new \$2,500 threshold takes effect starting with tax year 2016. In addition, the IRS will provide audit protection to eligible businesses by not challenging use of the new \$2,500 threshold in tax years prior to 2016.

If you have an applicable financial statement, the de minimis or small-dollar threshold remains \$5,000.

## **Deducting Business Travel Expenses**

*Good recordkeeping is crucial*

When traveling from home overnight for business, it's wise to keep track of all expenses you incur, because they may be deductible.

Deductible travel expenses generally include, but are not limited to the costs of:

- Travel by airplane, train, bus or car between your home and your business destination.
- Fares for taxis or other types of transportation between the airport or train station and your hotel, the hotel and the work location and from one customer to another, or from one place of business to another.
- Shipping of baggage and tradeshow material between your regular and temporary work locations.
- Meals and lodging.
- Using your car while at your business destination. You can deduct either actual expenses or the standard mileage rate, but you must make this choice during the first year of using your car for business; after that, there are restrictions on choosing a method. You can also deduct business-related tolls and parking fees. If you rent a car, you can deduct only the business-use portion for the expenses.

- Dry cleaning and laundry.
- Business calls while on your business trip.
- Tips you pay for services related to any of these expenses.
- Other similar ordinary and necessary expenses related to your business travel.

Instead of keeping records of your meal expenses and deducting the actual cost, you can generally use a standard meal allowance, which varies depending on where you travel. The deduction for business meals is generally limited to 50% of the unreimbursed cost.

For all employees, allowable travel expenses will be figured on Form 2106 or Form 2106-EZ. The allowable expenses are then carried to Form 1040, Schedule A. In order to successfully deduct business travel expenses, the deductions must exceed 2% of your adjusted gross income.



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## Depreciating a Vehicle

### *Knowing your luxury auto limits*

Looking to purchase a new business vehicle? Choose carefully. The limit on the amount that can be deducted for depreciation varies by type of vehicle. Under §280F, passenger automobiles, trucks and vans are subject to special annual depreciation limits, known as luxury auto limits. These limits begin to apply for cars costing at least \$19,000.

If a vehicle is four-wheeled, used mostly on public roads and has an unloaded gross vehicle weight of no more than 6,000 pounds, the car is considered a passenger automobile. Similar characteristics apply to vehicles that are considered light trucks and vans. However, for a vehicle to be considered a light truck or van, it must have been built on a truck chassis and have a loaded gross vehicle weight of no more than 6,000 pounds. The limits will vary, depending on whether the vehicle purchased is technically a passenger car, light truck or van or over the 6,000-pound threshold. Generally speaking, due to the luxury auto

depreciation limits that apply only to passenger vehicles, larger vehicles, such as light trucks and vans, will provide greater tax savings.

Generally, vehicles rated under 6,000 pounds will also qualify for a 50% bonus depreciation and an additional \$179 deduction. The special 50% bonus depreciation applies to all new passenger cars that are used over 50% for business use. This bonus depreciation limit increases the regular depreciation limit by \$8,000. The \$179 deduction applies to all passenger automobiles as well, but §280F limits will apply to this type of deduction.

### 2016 Depreciation Limits

Year	Automobiles	Light Trucks & Vans
1	\$3,160	\$3,560
2	\$5,100	\$5,700
3	\$3,050	\$3,350
4	\$1,875	\$2,075

Any vehicle that is rated over 6,000 pounds is not subject to the regular or bonus depreciation limits. In addition, for any vehicle over the 6,000-pound rating, the \$179 expense deduction is \$25,000. There are certain restrictions that may apply, however. Be sure to consult me about the make and model of your vehicle to accurately determine your depreciation limit.

**Please note:** If the vehicle is not used 100% for business, the depreciation limit will be reduced by multiplying the luxury auto limit by the percent of business use. The depreciation limit does not apply to any vehicle costing less than \$19,000.

## Start-Up Costs

### *What's deductible?*

Business start-up costs are deductible in the taxable year in which an active trade or business begins. Start-up expenses may include training wages, pre-opening utilities, rent, advertising, depreciation and any exploration costs. If you are starting a business, you'll want

to separate certain expenses to ensure they get the proper tax treatment. The two categories of start-up expenses are:

- Expenses you incur in exploring and setting up the business. You may deduct up to \$5,000 of start-up costs in the first year. The remaining expenditures are amortized over 180 months, beginning in the first year your business begins.

- Expenses you incur from the time the business officially begins. These are currently deductible.

Before the IRS will allow you to claim a deduction, your business activity must actually commence. If a business has yet to engage in its core business activity, the IRS will likely disallow any start-up expense deductions.



## **Transitioning From a Multi-Member LLC to a Single-Member LLC** *Seven steps to take*

In the business world, change is inevitable. If members of your multi-member limited liability company (LLC) decide to part ways and sell their business shares to you, leaving you a single-member LLC disregarded entity, there are certain steps you'll need to take and tax consequences you'll want to consider to properly handle the transition.

To properly change from a multi-member LLC to a single-member LLC, you'll need to follow these steps:

1. Obtain a sales agreement.
2. Determine the sale date.
3. Obtain financials through the sale date.
4. Have the final Form 1065 prepared.
5. If hot assets are present, have the Form 8308 prepared.
6. Attach statements.
7. Provide the final Schedule K-1.

Once all other members have left the LLC, be sure to file a new tax election stating that you'd like to be taxed individually. You'll no longer be taxed as a partnership and will instead be taxed similarly to how a sole proprietorship is taxed. I'll be happy to guide you through this process. Just call.

### **§1031 Exchange** *What property qualifies?*

Taxpayers can defer any capital gains taxes otherwise due from the sale of business property by reinvesting the proceeds in similar property as part of a qualifying 1031 like-kind exchange. One example of a like-kind exchange is trading in one car for another. However, many taxpayers also participate in like-kind exchanges for real property.

**Who qualifies?** Owners of investment and business property may qualify for a §1031 deferral. Individuals, C corporations, S corporations, partnerships (general or limited), limited

liability companies, trusts and any other taxpaying entity may set up an exchange of business or investment properties for business or investment properties under §1031.

**What qualifies?** Both the relinquished property you give up and the replacement property you acquire must meet certain requirements. Both properties must be held for use in a trade or business or for investment, and must be similar enough to qualify as "like-kind."

Real property and personal property can both qualify as exchange properties under §1031, but real property can never be like-kind to personal property.

**What doesn't qualify?** Certain types of property are specifically excluded from §1031 treatment, including:

- Inventory or stock in trade.
- Stocks, bonds or notes.
- Other securities or debt.
- Partnership interests.
- Certificates of trust.

**Please note:** With like-kind exchanges, gain deferral is mandatory unless the taxpayer fails the like-kind exchange rules. Failure often results when the taxpayer closes on one deal, accepts the money from the deal and then goes on to purchase another property using the proceeds. To avoid this type of situation, you should let a qualified intermediary hold the money instead of accepting it.