

## Year-End Tax-Planning Moves for Businesses & Business Owners

- Businesses should consider making expenditures that qualify for the business property expensing option. For tax years beginning in 2016, the expensing limit is \$500,000 and the investment ceiling limit is \$2,010,000. Expensing is generally available for most depreciable property (other than buildings), off-the-shelf computer software, and qualified real property—qualified leasehold improvement property, qualified restaurant property, and qualified retail improvement property. The generous dollar ceilings that apply this year mean that many small and medium sized businesses that make timely purchases will be able to currently deduct most if not all their outlays for machinery and equipment. What's more, the expensing deduction is not prorated for the time that the asset is in service during the year. This opens up significant year-end planning opportunities.
- Businesses also should consider making expenditures that qualify for 50% bonus first year depreciation if bought and placed in service this year. The bonus depreciation deduction is permitted without any proration based on the length of time that an asset is in service during the tax year. As a result, the 50% first-year bonus write-off is available even if qualifying assets are in service for only a few days in 2016.
- Businesses may be able to take advantage of the “de minimis safe harbor election” (also known as the book-tax conformity election) to expense the costs of lower-cost assets and materials and supplies, assuming the costs don't have to be capitalized under the Code Sec. 263A uniform capitalization (UNICAP) rules. To qualify for the election, the cost of a unit of property can't exceed \$5,000 if the taxpayer has an applicable financial statement (AFS; e.g., a certified audited financial statement along with an independent CPA's report). If there's no AFS, the cost of a unit of property can't exceed \$2,500. Where the UNICAP rules aren't an issue, purchase such qualifying items before the end of 2016.
- A corporation should consider accelerating income from 2017 to 2016 if it will be in a higher bracket next year. Conversely, it should consider deferring income until 2017 if it will be in a higher bracket this year.
- A corporation should consider deferring income until next year if doing so will preserve the corporation's qualification for the small corporation AMT exemption for 2016. Note that there is never a reason to accelerate income for purposes of the small corporation AMT exemption because if a corporation doesn't qualify for the exemption for any given tax year, it will not qualify for the exemption for any later tax year.
- A corporation (other than a “large” corporation) that anticipates a small net operating loss (NOL) for 2016 (and substantial net income in 2017) may find it worthwhile to accelerate just enough of its 2017 income (or to defer just enough of its 2016 deductions) to create a small amount of net income for 2016. This will permit the corporation to base its 2017 estimated tax installments on the relatively small amount of income shown on its 2016 return, rather than having to pay estimated taxes based on 100% of its much larger 2017 taxable income.
- If your business qualifies for the domestic production activities deduction (DPAD) for its 2016 tax year, consider whether the 50%-of-W-2 wages limitation on that deduction applies. If it does, consider ways to increase 2016 W-2 income, e.g., by bonuses to owner-shareholders whose compensation is allocable to domestic production gross receipts. Note that the limitation applies to amounts paid with respect to employment in calendar year 2016, even if the business has a fiscal year.

- To reduce 2016 taxable income, consider deferring a debt-cancellation event until 2017.
- To reduce 2016 taxable income, consider disposing of a passive activity in 2016 if doing so will allow you to deduct suspended passive activity losses.
- If you own an interest in a partnership or S corporation, consider whether you need to increase your basis in the entity so you can deduct a loss from it for this year.