Supplement to J. K. Lasser's Small Business Taxes 2014

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The tax law is not static, and there have been a number of changes affecting 2013 returns, as well as tax planning for 2014. Here are the key developments, some of which can apply to your 2013 return. Also, factor in the changes that affect your tax planning for 2014.

The changes presented in this supplement are tied to the chapters in the book.

Chapter 1—Business Organization

Examples of tax definitions of small business. For 2014, for purposes of the first-year expense election, it means equipment purchases of no more than $200,000 (unless Congress increases it retroactively). Above this purchase limit, the first-year expense deduction begins to phase out.

Audit rates. The audit rates for the government's fiscal year ending September 30, 2013, have been released. Generally, rates increased only on higher-income taxpayers; for the most part, they were unchanged for entities. A complete table will be included in the 2015 edition of the book.

Chapter 4—Income or Loss from Business Operations

Income from farming. The IRS has extended the livestock replacement period for certain drought-affected areas. Counties for 2013 can be found in Notice 2013-62.

Built-in capital gains for S corporations. The built-in gains period in which sales of certain appreciated property trigger tax at the corporate level usually is 10 years. A five-year period that applied for 2013 expired; it may be extended retroactively for 2014.

Limitations on business losses—S corporations. If an S corporation donated appreciated property to charity in 2013, the shareholder reduced his or her basis by the allocable share of the property's adjusted basis (not the corporation's charitable deduction based on the property's fair market value). This break expired at the end of 2013; it may be extended retroactively for 2014.

Chapter 5—Capital Gains and Losses

Sales of qualified business stock—excluding gain. To qualify for the exclusion, qualified small business stock must be held more than 5 years. Sales in 2014 of qualified small business stock held over 5 years are subject to the 50% exclusion for stock acquired prior to February 18, 2009, or the 75% exclusion for stock acquired after February 17, 2009, through the end of 2009. The 100% exclusion for stock issued after September 27, 2010, expired on December 31, 2013. As a result, for stock acquired in 2014 and held over five years, the exclusion will be capped at 50% of gain unless Congress extends the full exclusion retroactively for stock acquired after 2013.

Chapter 7—Employee Compensation

Adoption assistance. The dollar limit on the exclusion for employer assistance for adoption costs in 2014 is $13,190.

Employee use of company car. For purposes of valuing employee use of a company car in 2014, the IRS standard mileage rate is 56 cents per mile.

Employers using the cents-per-mile valuation rule for employee use of a company car can do so in 2014 only if the value of the car on the first day it is made available to the employee does not exceed a set dollar limit that has not yet been announced for 2014.

The fixed and variable rate (FAVR) allowance in 2014 is limited to a standard automobile cost not exceeding $28,200 ($30,400 for trucks and vans).

Qualified transportation fringe benefits. The parity between free parking and transit passes/vanpooling expired at the end of 2013. As a result, for 2014, the exclusion is capped at $250 per month for parking and $130 per month for transit passes and vanpooling. Parity may be restored by Congress retroactively for 2014.

Employer's Employment-Related Tax Credits

- ***Work opportunity credit.*** The credit for hiring individuals from certain targeted groups, such as disabled veterans, expired at the end of 2013. It may be extended retroactively for 2014.
- ***Empowerment zone employment credit.*** The 20% credit for hiring certain workers expired at the end of 2013. It may be extended retroactively for 2014.
- ***Indian employment credit.*** The 20% credit for hiring certain employees expired at the end of 2013. It may be extended retroactively for 2014.
- ***Employer wage credit for activated workers.*** The 20% credit for wage differential payments by small employers made to employees called to active duty expired at the end of 2013. It may be extended retroactively for 2014.

Chapter 8—Travel and Entertainment Expenses

Travel within the United States

Lodging. The maximum federal per diem rate for travel starting October 1, 2013, through September 30, 2014, covering lodging and meals and incidental expenses (M&IE) within the continental United States (CONUS) in most locations is $129 per day ($83 for lodging and $46 for M&IE). A number of the rates to certain areas have changed. These rates can be found at www.gsa.gov (click on "Per Diem Rates").

The high-low substantiation rates for high-cost and all other areas within CONUS for the period October 1, 2013, through September 30, 2014, are slightly higher than those for the previous 12-month period. The rates are $251 for travel to high-cost localities and $170 for travel to all other areas within CONUS. Of these rates, the meal portion is $65 for high-cost areas and $52 for all other areas within CONUS (these amounts are unchanged). Note that there are new areas added to the high-cost list, listed in Notice 2013-65

Meals. The dollar amount you can deduct using a standard meal allowance for trips within CONUS from October 1, 2013, through September 30, 2014, is $46 per day (or $51, $56, $61, $66, or $71, depending on the travel destination).

Chapter 9—Car Expenses

Section 179 deduction. The dollar limit for 2014 declines to $25,000 (it is $500,000 on 2013 returns). However, a higher limit could be reinstated for 2014. This limit is subject to the applicable dollar limit for cars, trucks, and vans. If a higher dollar limit is reinstated, the $25,000 limit for heavy SUVs will continue to apply.

The dollar limits that apply to cars, trucks, and vans that are not considered to be non-personal-use vehicles exempt from these limits is *not* increased in 2014 for bonus depreciation. Bonus depreciation at the rate of 50% (which translated into an $8,000 addition in the dollar limit for the first year in which vehicles were placed in service) expired at the end of 2013; it could be reinstated for 2014.

Standard mileage rate. The IRS announced the standard mileage rate, used in lieu of deducting the actual costs of business driving, for 2014; it is 56 cents per mile (a half penny less than in 2013).

Those who own their vehicles and use the standard mileage rate for 2014 must reduce the vehicle's basis by 22 cents per mile (one cent less than in 2013).

Credit for certain electric vehicles. The credit for buying certain 2-wheel and 3-wheel vehicles expired at the end of 2013. This tax break could be extended for 2014. The credit of up to $7,500 for highway-legal electric vehicles (such as the Chevy Volt and Nissan Leaf) continues to apply.

Chapter 10—Repairs, Maintenance, and Energy Improvements

Repairs versus improvements. Final regulations designed to clarify when costs can be immediately deducted rather than capitalized have been released. These extensive regulations contain various safe harbors, some of which are unique to small businesses, to help simplify tax reporting.

The regulations are effective in tax years beginning on or after January 1, 2014. However, businesses can opt to apply them on 2013 returns (and on amended 2012 returns).

Chapter 12—Rents

Qualified leasehold improvements. Leasehold improvements qualified for several tax breaks that expired at the end of 2013:

- Bonus depreciation at the rate of 50%
- 15-year recovery period

- First-year expensing (Section 179 deduction) up to $250,000

These breaks may be extended for 2014.

Chapter 13—Taxes and Interest

Self-employment tax. The Social Security wage base limit, which applies for self-employment taxes, is $117,000 in 2014. The tax rate for the Social Security portion of self-employment tax is 12.4% on net earnings up to this dollar limit. The tax rate for the Medicare portion of self-employment tax is 2.9% on all net earnings. The tax deduction is limited to one half of this amount.

For those with net earnings over the applicable threshold amount ($200,000 for singles, heads of households, and surviving spouses; $250,000 for joint filers; $125,000 for married filing jointly), there is a Medicare surtax of 0.9% on excess earnings. This applies only to the so-called employee portion, so no part of it is deductible. These threshold amounts are *not* indexed for inflation in 2014.

Employment taxes—FICA. The wage base for the Social Security portion of FICA in 2014 is $114,000. The rate for the employee's Social Security portion of FICA is 6.2%.

Employment taxes—FUTA tax. The Department of Labor has released its list of 2013 FUTA "credit reduction states." Employers in these states (see Table 13-1 below) have a reduced credit for state unemployment taxes. Affected employers pay an additional FUTA amount, as indicated in Table 13-1. For example, an additional 0.6% FUTA amount translates into $42 per employee earning $7,000 or more. The FUTA tax is fully deductible.

Table 13-1 Credit Reduction States for 2013 FUTA

Arkansas (0.9%)	Indiana (1.2%)	North Carolina (0.9%)
California (0.9%)	Kentucky (0.9%)	Ohio (0.9%)
Connecticut (0.9%)	Missouri (0.9%)	Rhode Island (0.9%)
Delaware (0.6%)	New York (0.9%)	Wisconsin (0.9%)
Georgia (0.9%)		

Chapter 14—First-Year Expensing, Depreciation, Amortization, and Depletion

First-year expensing. The expensing limit for 2014 is $25,000 (down from $500,000 in 2013). This dollar limit starts to phase out when purchases for the year exceed $200,000; no deduction can be claimed if purchases exceed $225,000. However, Congress may reinstate a higher dollar limit.

The opportunity to expense film and television production costs expired at the end of 2013. It could be extended for 2014.

15-year amortization of qualified leasehold, restaurant, and retail improvements. See Chapter 12.

Bonus depreciation. See Chapter 12.

Modified accelerated cost recovery system—recovery periods. The 7-year recovery period for motorsports entertainment complexes expired at the end of 2013. It could be reinstated for 2014.

Research and experimentation costs. The research credit expired at the end of 2014. It likely will be reinstated for 2014. This credit, which was created by the Economic Recovery Act of 1981, has been extended 14 times already. However, the ability to deduct research and experimentation costs has not changed.

Chapter 16—Retirement Plans

Contribution limits. Various limits have been retained or increased for 2014:

- 401(k) plan elective deferrals: $17,500 (plus $5,500 for those age 50 and older by December 31, 2014).
- Savings Incentive Match Plan for Employees (SIMPLE) elective deferrals: $12,000 (plus $2,500 for those age 50 and older by December 31, 2014).
- Defined contribution plans (profit-sharing plans and Simplified Employee Pension plans [SEPs]): up to $52,000.
- Defined benefit (pension) plans: up to $210,000.
- Compensation taken into account in figuring contributions and benefits: $260,000.
- IRAs: $5,500 (plus $1,000 for those age 50 or older by December 31, 2014).

In-plan rollovers to designated Roth accounts. Companies with 401(k) plans can add a designated Roth account option to which after-tax contributions can be made. The plan can permit participants to convert funds in their traditional accounts to their designated Roth accounts. The converted amount is taxable but is not subject to the 20% withholding that applies to 401(k) distributions. Plans that want to include this option for 2014 must amend their documents by the end of 2014.

Chapter 17—Casualty and Theft Losses

Disaster losses. The list of areas eligible for FEMA assistance in 2013 can be found at www.fema.gov/disasters/grid/year/2013.

Chapter 18—Home Office Deductions

Simplified deduction. For 2013, if you work from home, qualify for a home office deduction, and do not deduct your actual expenses for a home office on Form 8829, then figure the new simplified method on a worksheet provided in the instructions to Schedule C (for line 30).

Chapter 19—Medical Expenses

Small employer health care credit. Small employers that pay more than half the cost of employees' medical insurance may be eligible for a tax credit. The credit is reduced if premiums are more than the average premiums for the small group market in your state. The IRS has released the average premiums for small group markets in states for 2013. Here are the updated figures:

Table 19-1 Average Premiums by State for the Small Group Market

State	Employee-only coverage	Family coverage
Alabama	$5,363	$13,185
Alaska	7,961	16,808
Arizona	4,946	12,006
Arkansas	4,546	10,575
California	5,345	12,809
Colorado	5,445	13,937
Connecticut	6,307	16,011
Delaware	6,555	15,144
District of Columbia	6,133	16,079
Florida	5,602	13,261
Georgia	5,605	12,369
Hawaii	5,246	12,782
Idaho	4,901	10,738
Illinois	6,017	14,453
Indiana	5,710	13,029
Iowa	4,963	12,071
Kansas	5,164	12,322
Kentucky	4,936	11,981
Louisiana	5,390	12,691
Maine	5,590	13,064
Maryland	5,610	13,965
Massachusetts	6,323	16,502
Michigan	5,569	13,256
Minnesota	5,588	14,077
Mississippi	5,042	11,964
Missouri	5,268	12,366

Montana	5,433	11,739
Nebraska	5,463	13,270
Nevada	5,417	12,125
New Hampshire	6,153	15,367
New Jersey	6,250	15,225
New Mexico	5,639	13,121
New York	6,242	15,478
North Carolina	5,510	12,541
North Dakota	5,073	12,343
Ohio	5,174	12,710
Oklahoma	5,142	11,995
Oregon	5,413	12,811
Pennsylvania	5,618	13,753
Rhode Island	6,345	15,363
South Carolina	5,351	12,473
South Dakota	5,364	12,750
Tennessee	5,251	11,663
Texas	5,327	13,313
Utah	4,951	12,619
Vermont	5,800	13,409
Virginia	5,449	13,241
Washington	5,292	12,196
West Virginia	5,947	13,734
Wisconsin	5,786	14,623
Wyoming	5,948	14,314

For 2014 and 2015, the credit rate increases to 50% (up from 35% in 2013). The average wages limit for the full credit increase to $25,400 (up from $25,000 in 2013). However, the credit can be claimed only if coverage is obtained through the Small Business Health Options Program (SHOP). In the fall of 2013, the government announced that the federal SHOP would not be operational until at least November 2014. The IRS has yet to address this fact and how it will impact eligibility for the credit in 2014. This problem will be covered in *J. K. Lasser's Small Business Taxes 2015.*

Health savings accounts. The contribution limits for 2014 increased to $3,300 for self-only coverage and $6,550 for family coverage. Those age 55 or older by the end of 2013 can add another $1,000 for the year.

To contribute to a health savings account, the person must be covered by a high-deductible health plan. For 2014 as well as 2013, this means that the plan has a minimum deductible of $1,250 for self-only coverage and $2,500 for family coverage.

Archer medical savings accounts. The annual deductible in 2014 for a self-only plan is not less than $2,200 and not more than $3,250; the out-of-pocket annual expense limit is $4,350. The annual deductible for family coverage is not less than $4,350 and not more than $6,550; the out-of-pocket annual expense limit is $8,000.

Chapter 20—Deductions for Farmers

Depreciation. The 3-year recovery period for certain race horses expired at the end of 2013; it could be extended for 2014. For other developments, see Chapter 14.

Chapter 22—Miscellaneous Business Deductions

Moving expenses. For 2014, the standard mileage rate for driving a personal vehicle for moving purposes is 23.5 cents per mile.

Personal education incentives for 2014:

- ***Lifetime learning credit.*** The modified adjusted gross income (MAGI) limit on eligibility for the credit increases to $54,000 to $64,000 ($108,000 to $128,000 on a joint return).
- ***Above-the-line deduction for tuition and fees.*** This break expired at the end of 2013 but could be extended for 2014.
- ***Student loan interest.*** The MAGI limit on eligibility for the deduction increases to $130,000 to $160,000 on a joint return; and to $65,000 to $80,000 for singles. ***Charitable contributions.*** Enhanced deductions for donations of food inventory expired at the end of 2013. It could be extended for 2014.

On 2013 returns, S corporation shareholders can take into account their prorated share of corporate donations, even if they exceed the shareholders' basis in their S corporation stock. This break expired at the end of 2013 but could be extended for 2014.

The enhanced deduction for conservation easements expired at the end of 2013. For 2013, the enhanced deduction allows farmers and ranchers to claim a charitable contribution deduction for donations of conservation easements of 100% of their contribution base. This enhanced deduction may be extended for 2014.

Legal and professional fees. If you win a dispute with the IRS in which the government was not substantially justified, you may be able to recover costs up to a set dollar amount. For 2014, the dollar amount is $190 per hour (the same as in 2013).

Meal costs for day care providers. For 2014, the deduction for standard meals and snack rates have been increased slightly:

Breakfast:

- States other than Alaska and Hawaii: $1.28

- Alaska: $2.04
- Hawaii: $1.49

Lunch and dinner:

- States other than Alaska and Hawaii: $2.40
- Alaska: $3.89
- Hawaii: $2.81

Snacks:

- States other than Alaska and Hawaii: $0.71
- Alaska: $1.16
- Hawaii: $0.83

Chapter 23—Roundup of Tax Credits

The following tax credits expired at the end of 2013; some or all could be extended for 2014:

Employment-related credits:

- Work opportunity credit
- Empowerment zone employment credit
- Indian employment credit
- Employer differential wage payment credit

Capital construction-related credits:

- New markets credit
- Energy-efficient home credit

Other tax credits:

- Research credit
- Low-sulfur diesel fuel production credit

Chapter 24—Income and Deduction Strategies

Audit-proofing your return. While there is no way to completely prevent the IRS from selecting your return for audit, take care to report all income and use other measures to minimize selection.

For 2014, the IRS has indicated informally that is it shifting its focus of small business audits from corporations to partnerships. Faris Frank, head of the Small Business/Self-Employed Division told the American Institute of Certified Public Accountants (AICPA) that examining the returns of partnerships and other pass-through entities would be the "top priority" for his division.

If you find yourself under audit, you may be able to settle outstanding matters easily, quickly, and at less cost using the Fast Track Settlement Program. The program, which previously was limited to certain test cities, has gone nationwide. Find more information about this program from the IRS at www.irs.gov/uac/Newsroom/Fast-Track-Settlement-Program-Now-Available-Nationwide;-Time-Saving-Option-Helps-Small-Businesses-Under-Audit.

Chapter 25—Strategies for Opening or Closing a Business

Other financing—crowdfunding. The SEC continues to issue rules regarding equity crowdfunding. For information and links for equity crowdfunding, go to the Small Business & Entrepreneurship Council at www.sbecouncil.org/resources/crowdfunding.

Chapter 28—Alternative Minimum Tax

Exemption amounts. The exemption amounts for 2014 have been adjusted for inflation:

Filing status	2014 exemption
Single/head of household	$52,800
Married filing jointly/surviving spouse	$82,100
Married filing separately	$41,050

Exemption phase-out. The exemption amounts for 2014 start to phase out when alternative minimum taxable income (AMTI) exceeds $117,300 for singles and heads of households, $156,500 for married filing jointly and surviving spouses, and $78,250 for married filing separately.

28% rate. The 28% rate starts to apply to AMTI over $182,500 ($91,250 for married persons fling separately).

Chapter 29—Other Taxes

Social Security and Medicare taxes. For 2014, the wage base for the Social Security tax portion of FICA and self-employment tax increases to $117,000.

Bonus—Checklist of Expired Provisions

On December 31, 2013, the following tax rules for businesses (as well as dozens more not listed here) expired. Some or all may be extended retroactively for 2014 if Congress enacts "extender legislation." The following have been referenced within the chapters to which they relate. They are included here for a handy checklist.

1. Bonus depreciation—50% deduction
2. Certain electric vehicles—tax credit for 2- and 3-wheeled vehicles
3. Conservation easements—enhanced charitable deduction
4. Energy-efficient buildings—deduction up to $1.80 per square foot
5. Film and television—expensing of certain costs
6. First-year expensing—enhanced deduction

7. Indian employment credit
8. Leasehold improvements—15-year recovery period; $250,000 first-year expensing; bonus depreciation
9. New markets credit
10. Race horses—3-year recovery period for those 2 years old and younger
11. Research credit
12. S corporation build-in gains—reduced period for taxing such gains
13. S corporation stock—favorable adjustment for corporate donations of appreciated property
14. Small business stock—100% exclusion
15. Transportation fringe benefits—parity between parking and transit passes/vanpooling
16. Wage differential credit for payments to reservists
17. Work opportunity credit