# Supplement to J.K. Lasser’s Small Business Taxes 2015

###### By Barbara Weltman

The tax law is not static, and there have been a number of changes affecting 2014 returns, as well as taxes in 2015. Since publication of the 2015 edition of *J.K. Lasser’s Small Business Taxes*, Congress has enacted the Tax Increase Prevention Act (“TIPA,” which is also referred to as extender legislation). The courts and the IRS have also made decisions and rulings on many tax items that can impact your 2014 return. Here are key developments, some of which can apply to your 2014 return as well as tax withholding and estimated taxes for 2015.

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 $2.5 million (the expensing limit is phased out for purchases between $2 million and $2.5 million). The limit on equipment purchases for 2015 is set to be $225,000 (with a phase-out of expensing for purchases between $200,000 and $225,000. However, Congress may enact tax legislation to extend the 2014 limit or make it permanent.

***Forms and schedules.*** Because of the late enactment of extender legislation, the IRS had not updated many of its forms and schedules for the 2014 return. Find final versions of forms and schedules at [www.irs.gov/Forms-&-Pubs](http://www.irs.gov/Forms-%26-Pubs).

***Access to capital.*** Final rules for equity crowdfunding have not yet been issued. It is possible that there may be more Congressional action, which would delay any final rules.

## 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 2014 can be found in Notice 2014-60.

***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, but it had been shorted to 7 years and then to 5 years. TIPA retained the 5-year period for 2014. The fate of the 5-year period for 2015 is not yet known.

***Limit on business losses—S corporations.*** If an S corporation donated appreciated property to charity in 2014, the shareholder reduces 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). The fate of this rule for 2015 is not yet known.

## Chapter 5—Capital Gains and Losses

***Sales of qualified business stock—excluding gain.*** The 100% exclusion for stock issued after September 27, 2010, had expired on December 31, 2013. However, it has been retained for stock issued in 2014. To qualify for the exclusion, qualified small business stock must be held more than 5 years. The fate of this tax rule for 2015 is not yet known.

## Chapter 7—Employee Compensation

***Adoption assistance.*** For planning purposes, the dollar limit on the exclusion for employer assistance for adoption costs in 2015 is $13,400.

***Flexible spending accounts for medical expenses.*** For planning purposes, the maximum elective deferral to medical FSAs in 2015 is $2,550.

***Employee use of company car.*** For planning purposes, in valuing employee use of a company car in 2015, the IRS standard mileage rate is 57.5¢ per mile.

Employers using the cents-per-mile valuation rule for employee use of a company car can do so in 2015 only if the value of the car on the first day it is made available to the employee does not exceed $16,000 ($17,500 for a truck or van). If the fleet valuation rule is used, the maximum value is $21,300 ($22,900 for a truck or van.

The fixed and variable rate allowance (FAVR) in 2015 is limited to a standard automobile cost not exceeding $28,200 ($30,800 for trucks and vans).

***Qualified transportation fringe benefits.*** Parity between the exclusion free parking and commuter passes and vanpooling (collectively called transportation fringe benefits) was extended retroactively for 2014, making the monthly exclusion $250 for parking, transit passes, and vanpooling. Whether parity will also be extended for 2015 is not yet known. If it is not extended, the exclusion is $250 per month in 2015 for parking (unchanged from 2014) and $130 per month for transit passes and vanpooling.

Employers must use the restored parity amount for transit passes and van pooling provided in 2014. This means that the correct amount must be reflect on employees’ W-2s (furnished to employees in 2015) and on the employers’ Form 941 for the fourth quarter of 2014 (filed in 2015).

***Work opportunity credit.*** The credit, which expired at the end of 2013, has been retroactively extended for 2014.

The IRS has yet to issue guidance on what employers must do to meet the requirement of submitting Form 8850, *Pre-Screening Notice and Certification Request,* to the state workforce agency within 28 days of hiring a worker since this time period has long expired for some new employees. In the past, when a similar situation arose, the IRS gave employers until some time later in the year to submit the forms in order to take the tax credit on their return. Check for IRS relief in the matter.

The fate of this tax credit for 2015 is not yet known. However, it is advisable for employers to be sure that new employees complete Form 8850 so it can be submitted within the 28-day period. This will avoid any problems if the credit is extended, and is no problem if the credit is not extended.

***Empowerment zone employment credit.*** The 20% credit for hiring certain workers, which had expired at the end of 2013, has been retroactively extended for 2014. The fate of this tax credit for 2015 is not yet known.

***Indian employment credit.*** The 20% credit for hiring certain employees, which had expired at the end of 2013, has been retroactively extended for 2014. The fate of this tax credit for 2015 is not yet known.

***Employer wage credit for activated workers.*** The credit for wage differential payments by small employers made to employees called to active duty, which had expired at the end of 2013, has been retroactively extended for 2014. The fate of this tax credit for 2015 is not yet known.

***Employment tax credits in all businesses.*** As noted above, the following credits apply for 2014 returns: Employer wage credit for activated reservists, empowerment zone credit, Indian employment credit, and the work opportunity credit.

***Chapter 8—Travel and Entertainment Expenses***

***Business travel per diem rates.*** The maximum federal per diem rate for travel starting October 1, 2014, through September 30, 2015, 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). These rates are unchanged from the prior 12-month period. However, certain areas have different rates. These rates can be found at [www.gsa.gov](http://www.gsa.gov) (click on Per Diem Rates).

The high-low substantiation rates for areas within CONUS for the period October 1, 2014, through September 30, 2015, are $259 for travel to high-cost localities and $172 for travel to all other areas with CONUS. Of these rates, the meal portion is $65 for high-cost areas and $52 for all other areas within CONUS. The list of high-cost areas has been changed (see Notice 2014-57 for details).

## Chapter 9—Car Expenses

***Section 179 deduction.*** The $500,000 limit (with the phase-out starting at $2 million) was extended retroactively for 2014. Unless it is extended again, the dollar limit for the Section 179 deduction in 2015 will be $25,000 and this dollar limit will start to phase out when equipment purchases exceed $200,000.

The first-year dollar limit for 2014 (see Table 9.5) reflects an $8,000 additional amount for new vehicles because of bonus depreciation. Again, the fate of this additional amount for 2015 is not yet known.

The first-year dollar limits for passenger cars placed in service in 2015 are unchanged from 2014 (with the fate of the $8,000 additional amount the first year unknown). The limits for light trucks and vans placed in service in 2015 are the same as the limits for 2014 except for the second year (the dollar limit in 2015 is $5,600 compared to $5,500 in 2014).

***Standard mileage rate.*** The IRS announced the standard mileage rate, used in lieu of deducting the actual costs of business driving, for 2015; it is 57.5 cents per mile (one and a half cents more than in 2014). This rate can also be used for reimbursement purposes under accountable plans.

Those who own their vehicles and use the standard mileage rate for 2015 must reduce the vehicle’s basis by 24 cents per mile (up from 22 cents per mile in 2014).

***Credit for electric vehicles.*** The credit for 2-wheel and 3-wheel vehicles (but not for 4-wheel vehicles), which expired at the end of 2013, has not been extended for 2014. The credit for 4-wheel vehicles applies for 2014.

## Chapter 10—Repairs, Maintenance, and Energy Improvements

***Repairs versus improvements.*** The IRS has agreed to decide whether repairs and remodeling of restaurants (which typically occurs every 5 to 7 years) can be treated as repairs instead of capitalized expenses. The IRS has not, however, indicated when this guidance will be issued.

***Deduction for energy-efficient commercial buildings.*** The $1.80 per square foot deduction for commercial buildings that achieve at 50% energy-saving target has been extended retroactively for 2014. The fate of this deduction for 2015 is not yet known.

## Chapter 12—Rents

***Qualified leasehold, restaurant, and retail improvements.*** Qualified leasehold improvements made before 2014 (but not restaurant or retail improvements) had qualified for 50% bonus depreciation. Qualified leasehold, restaurant, and retail improvements had a 15-year recovery period through December 31, 2013. They could also qualify for $250,000 first-year expensing through December 31, 2013; the expensing option permits an immediate deduction if there was sufficient taxable income. These three tax breaks have been extended by Congress for 2014. The fate of these tax breaks for 2015 is not yet known.

## Chapter 13—Taxes and Interest

***Self-employment tax.*** The Social Security wage base limit, which applies for self-employment taxes, is $118,500 in 2015 (up from $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; $250,000 for joint filers, which are fixed in the tax law), there is also a Medicare surtax of 0.9% on excess earnings. This applies only to the so-called employee portion, so it is *not* deductible.

***Employment taxes—FICA.*** The wage base limit for the Social Security portion of FICA in 2015 is $118,500. 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 2014 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% additional 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 2014 FUTA**

|  |  |  |
| --- | --- | --- |
| California (1.2%) | Kentucky (1.2%) | Ohio (1.2%) |
| Connecticut (1.7%) | New York (1.2%) |  |
| Indiana (1.5%) | North Carolina (1.2%) |  |

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

***First-year expensing.*** The expensing limit from 2013 has been retained for 2014 at $500,000. The limit phases out when purchases for the year exceed $2 million. Thus, no expensing can be used if purchases for the year exceed $2.5 million. The fate of this dollar limit for 2015 is not yet known. If Congress fails to take action, the dollar limit for 2015will be $25,000, with a phase-out starting for purchases exceeding $200,000.

The additional first-year expensing for property in empowerment zones has been extended retroactively for 2014. Again, the fate of this additional expensing limit for 2015 is not yet known.

The opportunity to expense small film and television production costs, which expired at the end of 2013, has been extended retroactively for 2014. The fate of this special expensing rule for 2015 is not yet known.

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

***Bonus depreciation***. Bonus depreciation was extended retroactively for 2014; also *see*Chapter 12.

***Computer software.*** Off-the-shelf software has a 3-year recovery period for 2014. The fact of this rule for 2015 is not yet known.

***Modified accelerated cost recovery system—recovery periods.*** The 3-year recovery period for all race horses, which had expired at the end of 2013, has been extended for 2014.

The 7-year recovery period for motorsports entertainment complexes, which had expired at the end of 2013, has been extended for 2014.

The fate of these recovery periods for 2015 is not yet known.

***Research and experimentation costs.*** The research credit, which expired at the end of 2013, has been extended retroactively for 2014. The fate of this tax credit for 2015 is not yet known.

## Chapter 16—Retirement Plans

***Contribution limits.*** Various limits have been increased for 2015, although some remain the same as in 2014:

* 401(k) plan elective deferrals: $18,000 (plus $6,000 for those age 50 and older by December 31, 2015).
* Savings incentive match plan for employees (SIMPLE) elective deferrals: $12,500 (plus $3,000 for those age 50 and older by December 31, 2015).
* Defined contribution plans (profit-sharing plans and simplified employee pension plans [SEPs]): up to $53,000.
* Defined benefit (pension) plans: the limit is unchanged at $210,000.
* Compensation taken into account in figuring contributions and benefits: $265,000.
* IRAs: the contribution limits are unchanged for 2015 at $5,500 (plus $1,000 for those age 50 or older by December 31, 2015).

***PBGC premiums.*** For planning purposes, in 2015 the flat-rate premium for each participant is $57. The variable rate premium for underfunded plans is $24 per $1,000 of unfunded benefits per employee, with a cap of $418 per participant.

***MyRAs.*** The Treasury issued final regulations regarding the investment vehicles used for MyRAs. This is a new type of Treasury bond that bears the same rate of return as the return for the Thrift Savings Plan used by federal employees in their Government Securities Investment Fund (G Fund).

It has been unofficially reported that some employers began to offer MyRAs before the end of 2014. The IRS has yet to provide official information to employers that do not have qualified retirement plans but that want to offer MyRAs.

***State-sponsored plans for the private sector.*** States may impose their own retirement plan requirements on employers lacking retirement plans.

California’s Secure Choice Retirement Savings Trust, a mandated plan for employers with 5 or more employees, was enacted in 2013 but is still waiting IRS approval before going “live.”

On January 5, 2015, Illinois enacted “Secure Choice Savings Plan” mandating employers with 25 or more employees to automatically enroll employees in this plan. It is expected that the plan will not go into effect for 2 years. Other states may follow Illinois’ lead and mandate retirement savings for employers that have not adopted their own qualified retirement plans.

## Chapter 17—Casualty and Theft Losses

***Disaster losses.*** Find a list of all federal disaster areas for 2014 from FEMA at [www.fema.gov/disasters/grid/year/2014](http://www.fema.gov/disasters/grid/year/2014).

## Chapter 19—Medical Expenses

***Deducting medical insurance.*** The so-called employer mandate, requiring “large employers” to provide health coverage to full-time employees, took effect on January 1, 2015, for employers with 100 or more employees. The mandate for employers with 50 to 99 employees will become effective on January 1, 2016.

The IRS has made it clear that employers cannot choose to *not* set up a health plan and instead reimburse employees for their individually-obtained coverage ([www.irs.gov/Affordable-Care-Act/Employer-Health-Care-Arrangements](http://www.irs.gov/Affordable-Care-Act/Employer-Health-Care-Arrangements) . Such action can result in a $100 per day per employee penalty.

***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, provided they obtain coverage through the Small Business Health Insurance Option (SHOP) (government exchanges). 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 2014 on a county by county basis. These average premium amounts can be found in the instructions to the 2014 Form 8941.

The IRS can grant an exemption the requirement of purchasing coverage through a SHOP as a prerequisite to claiming the credit. For example, it has granted exemptions to employers in certain counties in Iowa that do not have access to any SHOP (see Notice 2015-8).

Note: For tax years beginning after 2013, the credit is allowed only for two consecutive tax years, so if the small employer health care credit is claimed for 2014, 2015 will be the last year that the credit can be claimed unless Congress changes the two-consecutive year rule.

***Health savings accounts.*** The contribution limits for 2015 increased to $3,350 for self-only coverage and $6,650 for family coverage. Those age 55 or older by the end of 2015 can add another $1,000 for the year (this additional contribution limit is unchanged).

To contribute to a health savings account, the person must be covered by a high-deductible health plan. For 2015, this means that the plan has a minimum deductible of $1,300 for self-only coverage and $2,600 for family coverage.

***Archer medical savings accounts.*** The annual deductible in 2015 for a self-only plan is not less than $2,200 and not more than $3,300; the out-of-pocket annual expense limit is $4,450. The annual deductible for family coverage is not less than $4,450 and not more than $6,650; the out-of-pocket annual expense limit is $8,150.

***Reporting health coverage on W-2s.*** As yet, the IRS has not changed the reporting requirements, so employers issued fewer than 250 in the previous year do not have to report health coverage.

## Chapter 20—Deductions for Farmers

***Depreciation.*** The recovery period for all race horses for 2014 is 3 years. The fate of the recovery period for 2015 is unknown.

## Chapter 22—Miscellaneous Business Deductions

***Moving expenses.*** For 2015, the standard mileage rate for driving a personal vehicle for moving purposes is 23 cents per mile.

***Personal education incentives for 2015:***

* ***Lifetime learning credit*.** The modified adjusted gross income limit on eligibility for the credit increases to $55,000 to $65,000 ($110,000 to $130,000 on a joint return).
* ***Above-the-line deduction for tuition and fees*.** This break, which had expired at the end of 2013, has been extended for 2014. The fate of this tax break for 2015 is not yet known.
* ***Student loan interest*.** The modified adjusted gross income limit on eligibility for the deduction is unchanged at $130,000 to $160,000 on a joint return; the limit for singles remains at $65,000 to $80,000.

The modified adjusted gross income limit on eligibility for the American opportunity credit is the same in 2015 as it was for 2014.

***Charitable contributions.*** Enhanced deduction for donations of food, which had expired at the end of 2013, has been extended retroactively for 2014. The fate of this tax break for 2015 is not yet known.

S corporation shareholders adjust their basis by the adjusted basis of property donated by their corporations in 2014. This break had expired at the end of 2013 but has been extended for one year. The fate of this tax break for 2015 is not yet known.

The enhanced deduction for conservation easements, which had expired at the end of 2013, has been extended for 2014. The enhanced deduction allows farmers and ranchers to claim a charitable contribution deduction for donations of conservation easements of 100% of their contribution basis. The fate of this tax break for 2015 is not yet known.

***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 $200 per hour (up from $190 in 2014).

***Meal costs for day care providers.*** For 2015, the rates for standard meals and snack rates have been increased slightly:

Breakfast:

* States other than Alaska and Hawaii: $1.31
* Alaska: $2.09
* Hawaii: $1.53

Lunch and dinner:

* States other than Alaska and Hawaii: $2.47
* Alaska: $4.00
* Hawaii: $2.88

Snacks:

* States other than Alaska and Hawaii: $0.73
* Alaska: $1.19
* Hawaii: $0.86

## Chapter 23—Roundup of Tax Credits

All of the following tax credits had expired at the end of 2013; they have been extended retroactively for 2014. The fate of these credits for 2015 is not yet known.

***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.***

Note: The credit for energy-efficient appliances expired at the end of 2013 and was *not* extended for 2014.

***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.

The IRS has sent letters to about 2,500 tax return preparers regarding Schedule Cs, noting that a review of returns they prepared contained a high number of errors. While these letters do not impose any penalties (on preparers or their business clients), they are indicators that added scrutiny will be applied toward future Schedule Cs they prepare.

## Chapter 25—Strategies for Opening or Closing a Business

***Other financing—equity crowdfunding.*** The SEC has yet to finalize rules for equity crowdfunding even though the JOBS Act authorizing equity crowdfunding was enacted in the Spring of 2012. It may be possible that further Congressional action will take place before any SEC rules are finalized.

Despite limbo on the federal level, more than a dozen states have created their own rules for equity crowdfunding within their borders. Check for developments on [www.barbaraweltman.com](http://www.barbaraweltman.com).

## Chapter 28—Alternative Minimum Tax

***Exemption amounts.*** The AMT exemption amounts are:

|  |  |  |
| --- | --- | --- |
| **Filing status** | **2014 exemption** | **2015 exemption** |
| Married filing jointly/surviving spouse  | $82,100 | $83,400 |
| Single/head of household | $52,800 | $53,600 |
| Married filing separately | $41,050 | $41,700 |

*Exemption phase-out.* The exemption amounts for 2015 start to phase out when alternative minimum taxable income (AMTI) exceeds $119,200 for singles and heads of households, $158,900 for married filing jointly and surviving spouses, and $79,450 for married filing separately.

*Start of 28% rate.* The 26% AMT rate for 2015 applies to alternative minimum taxable income up to $185,400 ($92,700 for married persons filing separately); the 28% rate applies to excess taxable income over these amounts.

***Chapter 29—Other Taxes***

***Social Security and Medicare taxes.*** The 2015 wage base limit for the Social Security tax portion of FICA and self-employment tax increased to $118,500. Note that the 0.9% Medicare surtax applies only to employees (and the so-called employee portion of self-employment tax).

A federal appeals court (Eighth Circuit) has held that Conservation Reserve Program (CRP) payments to non-farmers are *not* treated as self-employment income subject to self-employment tax.

***Sales taxes.*** The Internet Tax Freedom Act, which had expired on November 1, 2014, was given a temporary moratorium to December 11, 2014, and then an additional one-year extension to October 1, 2015. Efforts continue in Congress to make this law, which bars states from imposing new taxes on Internet access, permanent.