

# Significant Tax Changes in 2014 Impacting Small Business

**Presented by**

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# AGENDA

- \* Home Office Deduction
- \* Travel & Transportation
- \* 1099 Reporting
- \* Additional Medicare Tax
- \* Asset Depreciation Expense
- \* New rules for deducting or capitalizing tangible property costs
- \* Small Employer Health Insurance Credit



## Home Office Deduction

Simplified Option

Regular Method

Requirements for deduction

Additional tests for employee use

# Home Office Deduction

## **Simplified Method**

- \* Effective January 1, 2013
- \* Significantly reduces recordkeeping & substantiation
- \* Allows \$5 per square ft up to 300 square ft area
- \* Cannot use actual expenses nor depreciation of home
- \* Property Taxes and Mortgage are now considered personal expenses and reported on Schedule A

# Home Office Deduction (Cont)

## Regular Method

- \* Same as prior law, no changes
- \* File form 8829

## Requirements for Deduction

- \* Regular and Exclusive Use
- \* Principal Place of Your Business: If you conduct business outside your home office you need to make sure you qualify

# Home Office Deduction (Cont)

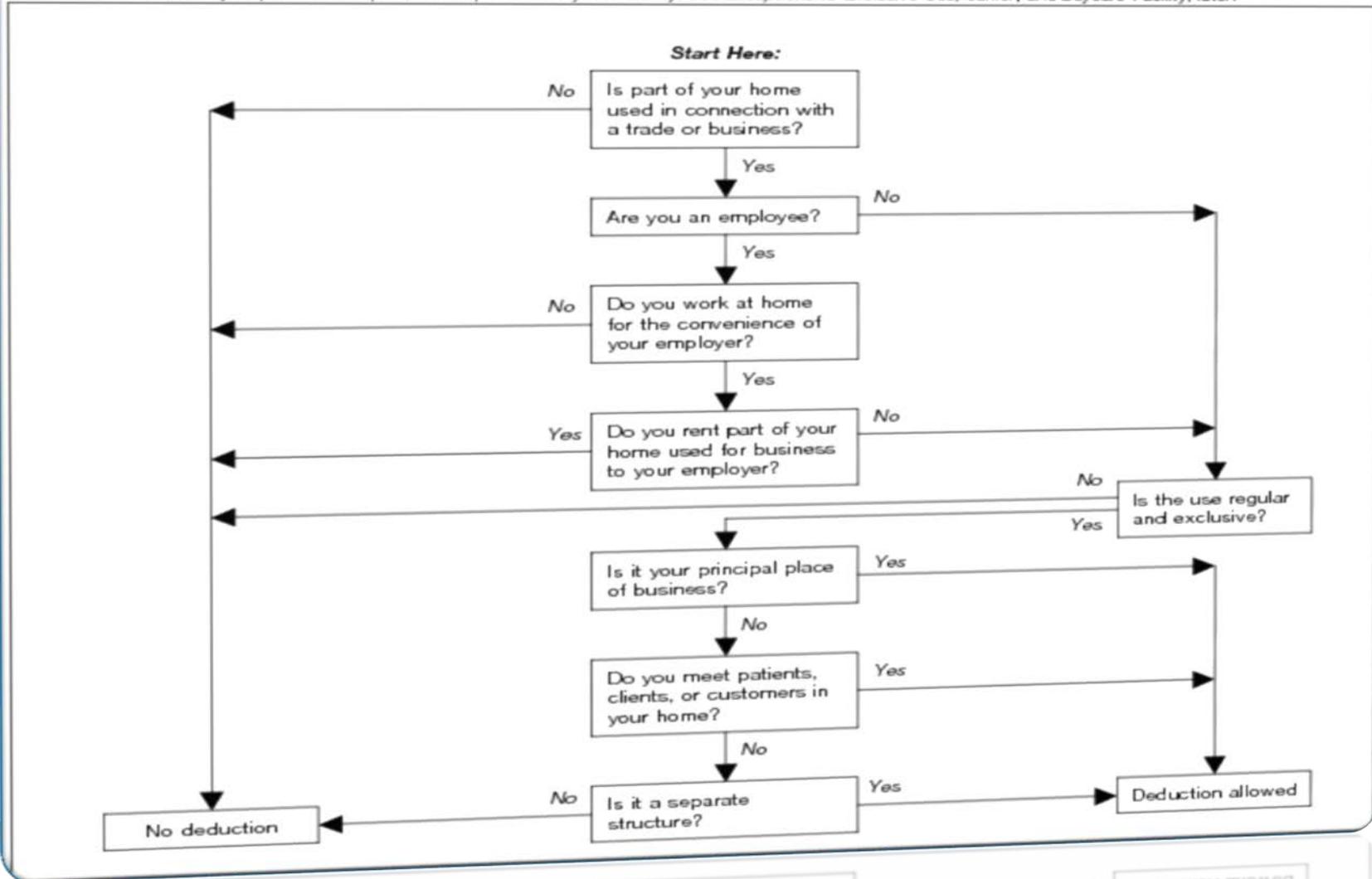
## **Additional tests for employee use**

- \* Your business use must be for the convenience of your employer, and
- \* You must not rent any part of your home to your employer and use the rented portion to perform services as an employee for that employer.
- \* If the use of the home office is merely appropriate and helpful, you cannot deduct expenses for the business use of your home

# Home Office Deduction (Cont)

<http://www.irs.gov/publications/p587>

**Figure A. Can You Deduct Business Use of the Home Expenses?** Do not use this chart if you use your home for the storage of inventory or product samples, or to operate a daycare facility. See *Exceptions to Exclusive Use*, earlier, and *Daycare Facility*, later.



# Travel & Transportation

## Mileage log:

- \* 2014 56.0 cents/mile
- \* 2013 56.5 cents/mile
- \* Date, Beginning & ending mileage, purpose

## Office in home:

- \* Qualifies for principal place of business
- \* No mileage is considered commuting
- \* Must file form 8829 “Expenses for Business Use of Your Home”

# Travel & Transportation (cont)

## When Are Transportation Expenses Deductible?

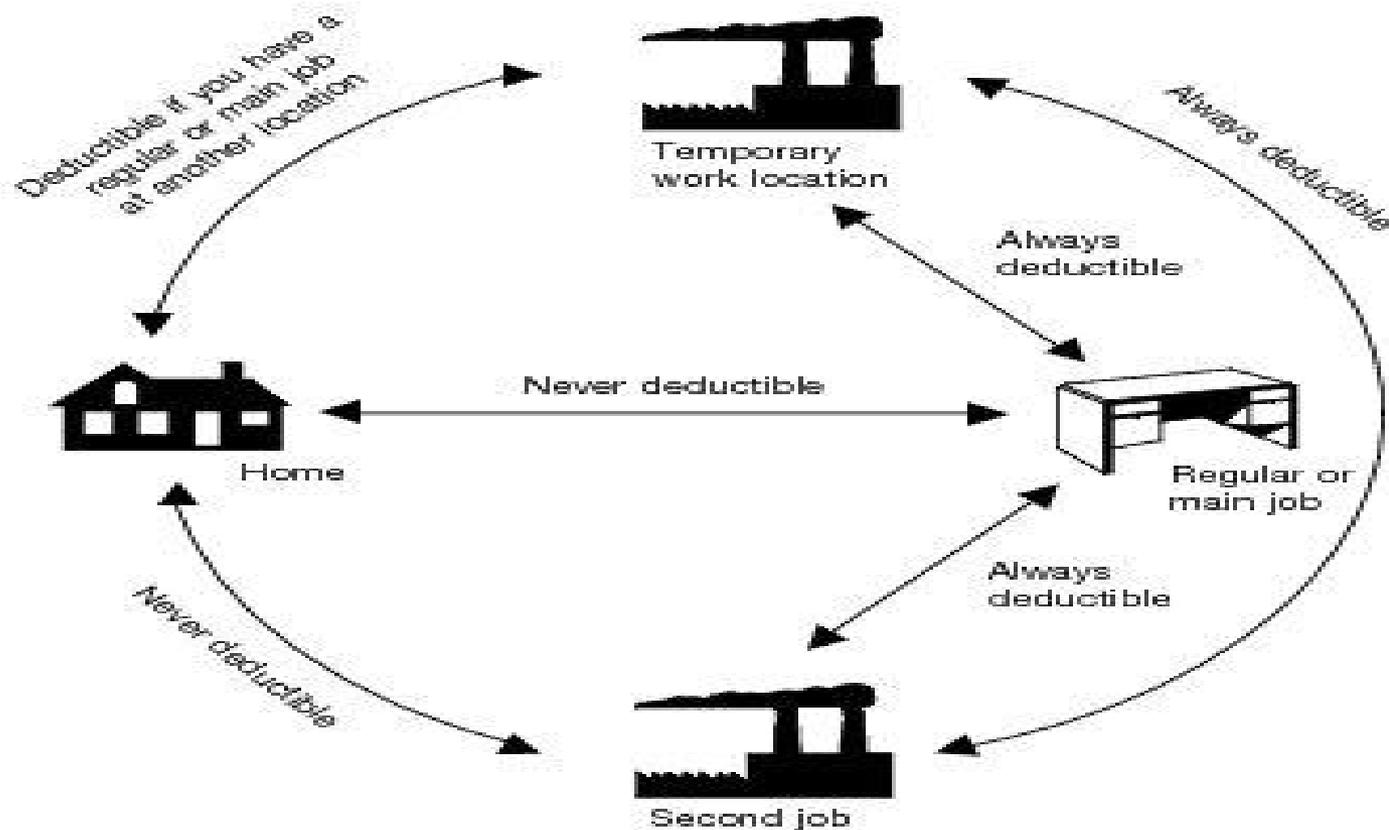
### **Not Deductible** when:

- \* Between home and regular or main job
- \* Between home and second job, when on a day off from regular or main job.

# Travel & Transportation (cont)

## **Deductible** when:

- \* Between home and temporary work location, Only if you have a regular or main job at another location.
- \* Between home and second job
- \* Between regular or main job and temporary work location
- \* Between regular or main job and second job
- \* Between temporary work location and second job



**Home:** The place where you reside. Transportation expenses between your home and your main or regular place of work are personal commuting expenses.

**Regular or main job:** Your principal place of business. If you have more than one job, you must determine which one is your regular or main job. Consider the time you spend at each, the activity you have at each, and the income you earn at each.

**Temporary work location:** A place where your work assignment is realistically expected to last (and does in fact last) one year or less. Unless you have a regular place of business, you can only deduct your transportation expenses to a temporary work location outside your metropolitan area.

**Second job:** If you regularly work at two or more places in one day, whether or not for the same employer, you can deduct your transportation expenses of getting from one workplace to another. If you do not go directly from your first job to your second job, you can only deduct the transportation expenses of going directly from your first job to your second job. You cannot deduct your transportation expenses between your home and a second job on a day off from your main job.

# Travel & Transportation (cont)

## **Simplified per-diem increase for post-Sept. 30, 2013 travel**

1. An employer may pay a per-diem amount to an employee on business-travel status instead of reimbursing actual substantiated expenses for away-from-home lodging, meal and incidental expenses (M&IE).
2. If the rate paid doesn't exceed IRS-approved maximums, and the employee provides simplified substantiation, the reimbursement isn't subject to income- or payroll-tax withholding and isn't reported on the employee's Form W-2.
3. In general, the IRS-approved per-diem maximum is the GSA per-diem rate paid by the federal government to its workers on travel status.

# Travel & Transportation (cont)

## **Simplified per-diem increase for post-Sept. 30, 2013 travel**

4. This rate varies from locality to locality. Instead of using actual per- diems, employers may use a simplified "high-low" per- diem, under which there is one uniform per- diem rate for all "high-cost" areas within the continental U.S. (CONUS), and another per- diem rate for all other areas within CONUS.
5. The IRS released the "high-low" simplified per- diem rates for post-Sept. 30, 2013 travel. The high-cost area per- diem increases \$9 to \$251, and the low-cost area per- diem increases \$7 to \$170.

\* **<http://www.gsa.gov/portal/content>**

# 1099 Reporting

- \* Compliance & Accountability form 1099-K
- \* Do not include credit card payments made to vendors for 1099-MISC reporting
- \* Increased penalties on forms 1099-MISC

# 1099 Reporting (cont)

## Penalties

- \* **\$30 per information return** if you correctly file within 30 days (by March 30 if the due date is February 28); maximum penalty \$250,000 per year (\$75,000 for small businesses, defined below).
- \* **\$60 per information return** if you correctly file more than 30 days after the due date but by August 1; maximum penalty \$500,000 per year (\$200,000 for small businesses).
- \* **\$100 per information return** if you file after August 1 or you do not file required information returns; maximum penalty \$1,500,000 per year (\$500,000 for small businesses).

# Additional 0.9% Medicare Tax

## Wages subject to Tax

<b>Filing Status</b>	<b>Threshold Amount</b>
Married filing jointly	\$250,000
Married filing separate	\$125,000
Single	\$200,000

# Asset Depreciation Expense

Beginning in calendar year one major tax break for assets used in business was drastically reduced:

1. IRC §179 (reducing drastically in 2014)
  - a) 2013 \$500,000 immediate deduction
  - b) 2014 \$25,000 immediate deduction
2. Bonus Depreciation
  - a) 2013 Depreciation 50% of the cost in year placed in service
  - b) 2014 Eliminated

## New rules for deducting or capitalizing tangible property costs

- Amounts paid to acquire, produce, or improve tangible property may be currently deducted as business expenses or must be capitalized.
- The new legislation provides detailed definitions of “materials and supplies” and “rotable and temporary spare parts” and prescribe rules and elective de minimis and optional methods for handling their cost.

## New rules for deducting or capitalizing tangible property costs (cont)

- They also have rules for differentiating between deductible repairs and capitalizable improvements, among many other items.
- The regulations generally are effective for tax years beginning on or after Jan. 1, 2014, but taxpayers can elect to apply them to certain pre-2014 years.

# Small Employer Health Insurance Credit

- Credit is available to an employer with no more than 25 full-time equivalent employees (FTEs) employed during its tax year, and whose employees have annual full-time equivalent wages that average no more than \$50,000
- However, **the full credit** is available only to an employer with 10 or fewer FTEs and whose employees have average annual full-time equivalent wages from the employer of not more than \$25,000

# Small Employer Health Insurance Credit (cont)

- \* **How does the credit change in 2014?**
- \* There are a few important changes to the credit for tax years beginning in 2014 and forward.
- \* Employers must enroll in a QHP through their designated SHOP Marketplace (or through a direct enrollment process if available).
- \* The credit amount increases to 50% of premiums paid for eligible small employers and to 35% of employer premiums paid for tax-exempt eligible small employers.

# Small Employer Health Insurance Credit (cont)

- \* **How does the credit change in 2014?**
- \* An employer must contribute a uniform percentage of premiums (at least 50%) on behalf of each employee enrolled in a QHP offered by the small employer through a SHOP Marketplace.
- \* An employer may claim the credit for two-consecutive taxable years, beginning with the first taxable year in or after 2014 in which the eligible small employer attaches a Form 8941, Credit for Small Employer Health Insurance Premiums, to its income tax return
- \* Cost-of-living adjustments are made to the average annual wage phase out amounts

# Individual Health Insurance



- \* The IRS released Questions and Answers (Q&As) on the health insurance premium tax credit on its website.
- \* This credit is designed to make health insurance affordable to individuals with modest who are not eligible for other qualifying coverage, such as Medicare, or “affordable” employer-sponsored health insurance plans that provide “minimum value.”
- \* To qualify for the credit, individuals must purchase insurance on a health exchange.
- \* The Q&As note that individuals can choose to have the credit paid in advance to their insurance company to lower what they pay for their monthly premiums, and then reconcile the amount paid in advance with the actual credit computed when they file their tax return.
- \* Alternately, individuals can claim all of the credit when they file their tax return for the year.

# Healthcare-Affordable Care Act

## October 1, 2013 requirements

Use these forms:

If your employer DOES NOT provide health insurance:

<http://www.dol.gov/ebsa/pdf/flsawithoutplans.pdf>

If your employer DOES provide health insurance:

<http://www.dol.gov/ebsa/pdf/FLSAwithplans.pdf>

<http://www.irs.gov/uac/Small-Business-Health-Care-Tax-Credit:-Questions-and-Answers>

<https://www.healthcare.gov>

[https://beyondpayroll.emslabs.intuit.com/healthcare/landing/assets/Affordable\\_Care\\_Act\\_for\\_Small\\_Employers.pdf](https://beyondpayroll.emslabs.intuit.com/healthcare/landing/assets/Affordable_Care_Act_for_Small_Employers.pdf)

# Thank you for attending

## Questions & Answers

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