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Dec. 03, 2014



With the November elections behind us, the Republican Party is in line to take control of the Senate, giving them the majority vote in both chambers of Congress for the first time since 2006.

What does the change of guard mean for tax reform? It's hard to say.

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might look like.

## **Don't Forget to Work the Core**

With all of the chatter surrounding Congress' plans, it can be easy to forget the core planning items that should be considered at the end of each year. For businesses beginning year-end tax planning, keep the following items top of mind, giving particular consideration to bonus plan limitations, the Alternative Minimum Tax (AMT), and permanent benefits:

- Enter into/sell installment contracts
- Hold/sell appreciated assets
- Accumulate/declare special dividend
- Delay/accelerate debt forgiveness
- Delay/accelerate billable services
- Pay bills in 2014/postpone Payment until 2015 for cash basis taxpayers
- Consider AMT – especially in flow-through scenarios
- Review accounting method changes due before year-end
- Document active/passive shareholder involvement via detailed hours log
- Consider bonus depreciation

## **Bonus Plan Limitations**

### *Bonus Depreciation*

With the exception of the non-commercial aircraft industry, bonus depreciation expired at the end of 2013. If new legislation includes a retroactive bonus depreciation provision after a business' tax return is prepared, taxpayers could include a statement with their return electing out of the accelerated depreciation methodology, rather than updating the calculation and the tax return. This may be a

good option if you want to remove the uncertainty surrounding the legislative

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If your client plans on accruing for bonus payments in 2014 and making those payments in early 2015, year-end is the perfect time to review the bonus plan and related documentation. Depending on the structure of the agreement, the 2014 accrual may or may not be deductible in 2015. It is important to consider the “fixed” and “determinable” rules and if they have been met and properly documented.

### **Alternative Minimum Tax**

In addition to the aforementioned planning items, year-end tax planning without considering AMT would likely not be a sound approach. Without factoring in AMT, an appealing plan could be spoiled by complications late in the game. Often, AMT implications will not come to light until the return is prepared – long after your client has signed off on the plan. This is often missed in a flow-through income scenario where AMT is not considered until it's time to consider the 1040.

### **Don't Forget about Permanent Benefits**

#### *Section 199*

For taxpayers and tax preparers anticipating positive taxable income for 2014, the section 199 deduction is a great benefit to introduce to your clients. Generally, the incentive is available to US manufacturers and allows for a nine percent deduction of the lesser of taxable income or “qualified production activities income.” Unlike temporary benefits (such as bonus depreciation), the 199 deduction will never reverse and generates real cash savings. Even if part of the manufactured good is produced outside of the US, the benefit might still be applicable if the component has parts made in the US.

#### *IC-DISC*

If you are already taking advantage of the section 199 deduction, the interest- charge

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there are still planning opportunities that can be put in place now. With proper foresight and awareness, you can avoid traps down the road, while still creating lasting value.

Tax Planning

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