

# BUSINESS TAX TIPS

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## **LOW INTEREST RATES MAKE CORPORATION-TO-SHAREHOLDER LOANS ADVANTAGEOUS**

The IRS approved applicable federal rates (AFRs) are extremely low right now and expected to stay low. This is good news when it comes to loans from corporations to shareholders. For August the minimum interest rates are as follows:

Short-term loan (up to 3 years)	.20%
Mid-term loan (over 3 years, but less than 9 years)	1.00%
Long-term loan (over 9 years)	2.60%

The interest rate is established at the time a loan is made and can be fixed for the term of the loan.

For example in August 2013, a corporation could make a 36 month term loan to a shareholder and only charge .20% interest. This presents a viable alternative to bank financing for any personal purchases.

## **RESEARCH AND DEVELOPMENT TAX CREDIT**

The credit for increasing research and development activities was extended through December 31, 2013 and is likely to be extended into future years. If your business has research and development activities, you may be eligible for this credit.

## **EQUIPMENT SECTION 179 EXPENSING LIMITATION**

The higher limitations for Section 179 expensing were extended through December 31, 2013. A taxpayer may expense certain depreciable property under Section 179 up to \$500,000 purchased during 2013. This expense limitation would phase-out as total purchase increase to \$2,000,000. Within those thresholds, the act allows a taxpayer to expense up to \$250,000 of the cost of qualified real property (qualified leasehold improvement property, qualified restaurant property, and qualified retail improvement property). For tax years beginning after in 2014, the expense limitation goes from \$500,000 in 2013 to \$25,000 in 2014 and the threshold decreases to \$200,000.

## **QUALIFIED LEASEHOLD IMPROVEMENTS DEPRECIATION**

The special rule treating qualified leasehold improvements and certain other property as 15-year property was extended through December 31, 2013. This is an exception to the general rule that the costs of leasehold improvements to nonresidential real property are depreciated over 39 years. Under this rule the qualified leasehold improvement property is also eligible for a bonus 50% first-year depreciation deduction.

## **NEW OPTION FOR HOME OFFICE DEDUCTION**

Starting in 2013 taxpayers will be able to elect the new safe-harbor method to deduct expenses for a home office instead of the actual-expense method. Under the new safe-harbor method, eligible taxpayers deduct \$5 per square foot of space used for qualified business use, limited to 300 square feet, with no questions asked about actual expenses and no documentation of expenses required. When using the safe-harbor method, the taxpayer does not reduce any itemized deductions for the home

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office deduction such as real estate tax and mortgage interest. There is also no depreciation to worry about. This will actually be advantageous for many taxpayers taking the home office deduction.

Taxpayers will have the choice of the safe-harbor or actual-expenses method on a year to year basis. At Serle & Associates CPA we will be sure to run the numbers both ways and choose the method that works best for you.

### **BUSINESS STANDARD MILEAGE RATE**

For 2013, the standard business mileage rate is 56.5 cents per mile.

### **VEHICLE DEPRECIATION IN THE FIRST YEAR**

For vehicles placed in service in 2013, the first year depreciation is generally limited to \$11,160. A \$25,000 per vehicle Section 179 limit applies to vehicles with an unloaded gross vehicle weight (GVW) (loaded GVW for trucks and vans) over 6,000 lbs. The \$25,000 limit does not apply to vehicles rated at more than 14,000 lbs. GVW.

### **OHIO SALES TAX RATE INCREASED**

The base Ohio sales tax rate is increased from 5.50% to 5.75% effective September 1, 2013. Please note that all local Ohio jurisdictions impose sales and use tax in addition to the base rate.

### **COMPANY PICNICS/PARTIES**

Usually, deductions for business entertainment and meals are limited to 50% of the cost. However, if you hold a summer picnic or other party for the benefit of your entire workforce, your business can write off 100% of the cost. It will not jeopardize the deduction if you also invite a handful of business associates and social guests.

### **OHIO OWNERS OF PASS THROUGH ENTITIES ENTITLED TO A NEW DEDUCTION**

Starting in 2013, there is an Ohio personal income tax deduction of the lesser of \$125,000 or 50% of small business investor income includable in federal adjusted gross income. Pass through entity (trust, S Corporation, LLC, partnership) business income apportioned to Ohio is eligible (as is income from a sole proprietorship). The business entity cannot claim this deduction, it must be claimed on the owners' personal income tax return.

### **IRS LOSES IN TAX COURT**

In this case, a corporation constructed a vacation home for its owner, who reimbursed the business for the amounts paid to subcontractors and vendors plus labor and overhead. IRS argued that he received a constructive dividend because he did not pay the standard profit margin that is built into the contract price for unrelated customers. The tax court rejected the IRS argument and sided with the taxpayer.

### **ANNUAL OHIO CAT TAXPAYERS MUST FILE AND PAY ELECTRONICALLY**

Starting in 2014 all Ohio CAT taxpayers (annual and quarterly) must file and pay CAT taxes electronically. Guidance will be issued to assist annual taxpayers in making the transition.