

Ashley Smith, Business News Daily Contributor | January 29, 2015 10:14am ET

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Following the most wonderful time of the year is a season that strikes fear in the hearts of many small business owners: tax time.

Shelling out a substantial percentage of the year's income is stressful enough, but tax season also brings with it a great deal of complexity and confusion. Tax laws are constantly changing and being revised, and it can be difficult for small business owners to keep up. And what adds even more stress to tax filing is that even innocent mistakes or oversights can lead to big penalties.

In preparation for the April 15 tax deadline, Business News Daily consulted small business tax experts to find out what business owners should be paying attention to now. Some of these issues involve recent tax changes, while others are issues small businesses should be

watching for the future.

Tax extenders

Two important tax breaks for small business have been extended. They are Section 179 and bonus depreciation. Section 179 allows businesses to deduct the full price of any qualifying equipment or software purchased or leased during the year. The tax-extension bill continues the \$500,000 maximum deduction for new and used equipment that was purchased in 2014. Bonus depreciation allows business owners to depreciate 50 percent of the cost of new equipment purchased in 2014. The two tax incentives can be used together.

Although the act's passage was a relief for business owners who purchased equipment in 2014, many others had to scramble to make equipment purchases in the final two weeks of the year or missed out on purchases while waiting for Congress, said Miguel Farra, chairman of the tax and accounting department at public accounting firm [Morrison, Brown, Argiz & Farra LLC](#).

"These are great tax incentives," Farra said. "If everyone knew about them during the course of the year, they could have acted."

Also, because the incentives were extended only through the end of 2014, small business owners have no way to know whether these purchases will apply to business purchases made in 2015 until much later this year, said Dennis Brager, of Los Angeles-based [Brager Tax Law Group](#), which specializes in helping companies that are in tax trouble.

Brager advised business clients to buy the equipment they need this year without waiting to find out if the tax breaks will be extended again.

"I always tell my clients to make sure the tax tail isn't wagging the dog," he said. "It's great to save on taxes, but you shouldn't be making decisions based solely on taxes. If you need new equipment, then spend the money. And if the tax savings come along, that's a bonus."

Other notable tax breaks that were extended include the research credit, energy production tax credits, and a deduction for local and state sales tax.

The Affordable Care Act

The Affordable Care Act (ACA) added an estimated 2,400 pages to the U.S. tax code, further complicating the tax landscape for businesses of all sizes. The most notable issue for many businesses is that they could face tax penalties for failing to provide health insurance to employees or for failing to report to the IRS what type of coverage they have provided for employees.

As of Jan. 1, 2015, businesses with 100 or more employees must provide health insurance to 70 percent or more of their full-time equivalent employees, or they'll face a tax penalty of up to \$2,000 per employee, said Janemarie Mulvey, former chief economist for the U.S. Small Business Administration's Office of Advocacy. Mulvey, who has published a reference guide for small businesses called "[Health Reform: What Small Businesses Need to Know Now!](#)" said that beginning Jan. 1, 2016, businesses with 59 to 99 employees will be required to offer health insurance

Businesses should also understand the reporting requirements that come along with ACA, Mulvey said. ACA requires employers to report the cost of the health coverage they provided on each employee's W-2 form. A breakdown of what the employer and the employee each paid is required in Box 12 of the form. Failing to report this information could lead to fines of \$200 per employee, Mulvey said. Even though the deadline for reporting those figures is not until Feb. 28, 2016, she said, employers should start keeping track of health coverage costs now.

"Because the IRS is now the gatekeeper for insurance coverage, they are going to start collecting info from employers about what kind of insurance they provided," she said. "It's going to be a big regulatory nightmare."

Farra agreed that the ACA insurance and reporting requirements could be burdensome to small businesses. He recommended consulting an accountant or insurance expert now to make sure the coverage you provide meets the minimal essential coverage. In many cases, he said, a skilled insurance agent can also help businesses determine whether it is a better financial decision to provide insurance to employees or just pay the tax penalty.

The New Republican Congress

Republicans now control both the Senate and the House, and that could have an impact on tax reform in 2015, said Zach Olson, founder and CEO of [Tax Alli](#), which provides tax accounting software and services for small businesses. Sen. Orrin Hatch, the new chairman of the Senate Finance Committee, recently released a lengthy report related to tax reform and has said he believes there is "real momentum" for the U.S. tax code to be overhauled this year. If Congress does take up tax reform in 2015, Olson said, almost everything will be on the table. Small business owners should follow news on this closely to find out how that reform might impact their tax burden, he said.

Taxation of online sales

The Marketplace Fairness Act stalled in the 2014 session of Congress, but it is expected to be addressed again in 2015, Olson said. The legislation attempts to level the playing field between online merchants and brick-and-mortar stores by allowing states to require online sellers that gross more than \$1 million per year to collect and pay the state sales tax. Not surprisingly, the move is supported by brick-and-mortar stores but faces major opposition from online retailers.

Tax Tips for Small Businesses

Just because tax law can be complicated doesn't mean you have to let yourself get overwhelmed. Here are some tips on how to manage your taxes year-round.

- **Think about taxes all year long.** Small business owners should not treat taxes as a once-a-year event, Olso said. Rather, tax planning should be a year-round activity. Waiting until the last minute makes tax preparation more complicated, and it limits your money-saving options.
- **Hire a pro.** A knowledgeable tax attorney or accountant is well worth the expense, experts say. Tax laws are complex, and they're difficult for many busy small business owners to weed through. A professional can identify tax breaks and deductions you might otherwise miss.
- **Be aware.** Even with the help of a skilled professional, it is the job of a small business owner to keep up with news related to laws. Read the business papers and keep up with Congress' work on tax laws, said Brager, who is also a former IRS trial attorney.
- **Don't make assumptions.** Tax planning, to some extent, is a gamble, Farra said. Although historically, Congress has always passed the tax-extender bill at the last minute, there are no guarantees. Never make business decisions assuming that tax breaks will pass.

Links and Resources

For additional help with your small business taxes, here are some resources:

- The U.S. Small Business Administration is hosting a free webinar to help small businesses understand the Affordable Care Act this Thursday, Jan. 29. [Click here](#) for information on how to participate.
- The IRS website has more information about how the ACA affects small business owners' taxes [here](#).
- This [Tax Foundation blog](#) offers a complete list of all tax breaks extended by Congress in December 2014.

Editors Picks

- [Best Accounting Software for Small Businesses - 2015 Edition](#)
- [Too Soon for Taxes? 6 Prep Steps to Take Now](#)
- [Choosing the Right Accounting Software for Your Needs](#)