

January, 2014

Dear Business Client:

Tax changes for businesses were not as extensive as those for individuals, but many business credits, or tax breaks did expire as of the end of 2013. The following are some key tax matters affecting business for 2013 and 2014.

Section 179 Deduction: For the tax year 2013, the maximum amount is \$500,000. If total purchases exceed \$2,000,000, this deduction phases out. In contrast, *for tax years beginning after 2013, that dollar limit is scheduled to plummet under current law to \$25,000, and the phase-out ceiling is also scheduled to drop to \$200,000 in 2014, unless otherwise extended by Congress.*

Domestic Production Activities Deduction: You still may be able to deduct up to 9% of your qualified production activities income. Only certain types of income qualify and the rules and calculations are rather complex. Some businesses will receive a modest deduction, but with a significant amount of work involved.

Social Security Taxes: The wage base was capped at \$113,700 for 2013 and is \$117,000 for 2014. There is no wage cap for Medicare taxes. Starting in 2013, the Medicare tax is expanded. Employers must collect an extra 0.9% on wages exceeding \$200,000 paid to individuals. Self-employed persons will also pay an extra 0.9% on earnings over this threshold.

Standard Mileage Rate: Changed to 56¢ per mile in 2014 (down 0.5¢ from 56.5¢ in 2013).

Pensions: 401(k) type elective deferral is \$17,500 for 2013 and 2014, with catch-up contributions for those age 50 or over at \$5,500. The maximum SIMPLE deferral is \$12,000 for both 2013 and 2014, with a catch-up contribution of \$2,500.

Use Tax: If you purchased assets or supplies out-of-state, on-line, or through mail order without paying sales tax, you must self-assess the State sales tax (known as Use Tax) and remit it to your State's Tax Department.

Independent Contractors: Each independent contractor who earned \$600 or more in 2013 should be sent a timely filed 1099-MISC form by January 31, 2014. This rule applies to all non-incorporated contractors and all attorneys, incorporated or not.

Bonus Depreciation: The bonus depreciation rate is 50% of the cost basis of qualifying property placed in service before January 1, 2014. While there is no cap on qualifying expenditures, bonus depreciation is not permitted for Vermont and certain other states, thus it may still be best to maximize the Section 179 equipment expense deduction first.

Small Business Health Insurance Credit: For the years beginning after 2013 the maximum credit increased to 50% of the payments the eligible small employer makes on behalf of its employees under a qualified arrangement or qualified health plan.

Penalties – Late Filing: The IRS has significantly increased the imposition of penalties for many business returns/reports – and abating penalties has become more difficult. We urge clients to try to file timely.

The above explanations are very general in nature. Please contact us if you wish to discuss them in more detail, or visit our website at www.herrickltd.com.

Our standard business engagement letter is enclosed along with our checklist. Please answer the questions on the checklist, sign the letter, and return both to us. We cannot begin your tax returns until we have received the signed engagement letter.

As always, we look forward to working with you.

Sincerely,

Herrick, Ltd. CPAs

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