

HERRICK, LTD. Certified Public Accountants

January, 2015

Dear Business Client:

Congress approved the Tax Increase Prevention Act of 2014 in December 2014 (also referred to as "Business Tax Extenders"), thus extending many business tax incentives for one year retroactively from January 1, 2014. The following are some key tax matters affecting business for 2014 and 2015.

Section 179 Deduction: For the tax year 2014, the maximum amount is \$500,000. If total purchases exceed \$2,000,000, this deduction phases out. *Pending further action by Congress in 2015, the dollar limit will plummet to \$25,000, and the phase-out ceiling will drop to \$200,000.*

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 \$117,000 for 2014 and \$118,500 for 2015. 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 57.5¢ per mile in 2015 (up 1.5¢ from 56¢ in 2014).

Pensions: 401(k) type elective deferral is \$17,500 and \$18,000, with catch-up contributions for those age 50 or over at \$5,500 and \$6,000, for 2014 and 2015 respectively. The maximum SIMPLE deferral is \$12,000 and \$12,500, with a catch-up contribution of \$2,500 and \$3,000, for 2014 and 2015, respectively.

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 2014 should be sent a timely filed 1099-MISC form by February 2, 2015. 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, 2015. 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 tax years 2014 and later, 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: Effective for returns filed after December 31, 2014, the ABLÉ Act indexes for inflation certain civil tax penalties for many returns/reports (including the failure to file business returns penalty). 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