



2016 MRCA Tax Update

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From the authors:

The information contained herein is educational in nature.

This presentation contains coverage of selected recent tax code changes, new regulations, and other tax developments that, by necessity of space and presentation timeframe, are condensed and may reflect only selected aspects of the development.

The participant is cautioned not to rely on these summaries in lieu of a full review of the applicable statute, regulations, and other authorities affecting any specific tax issue or transaction.

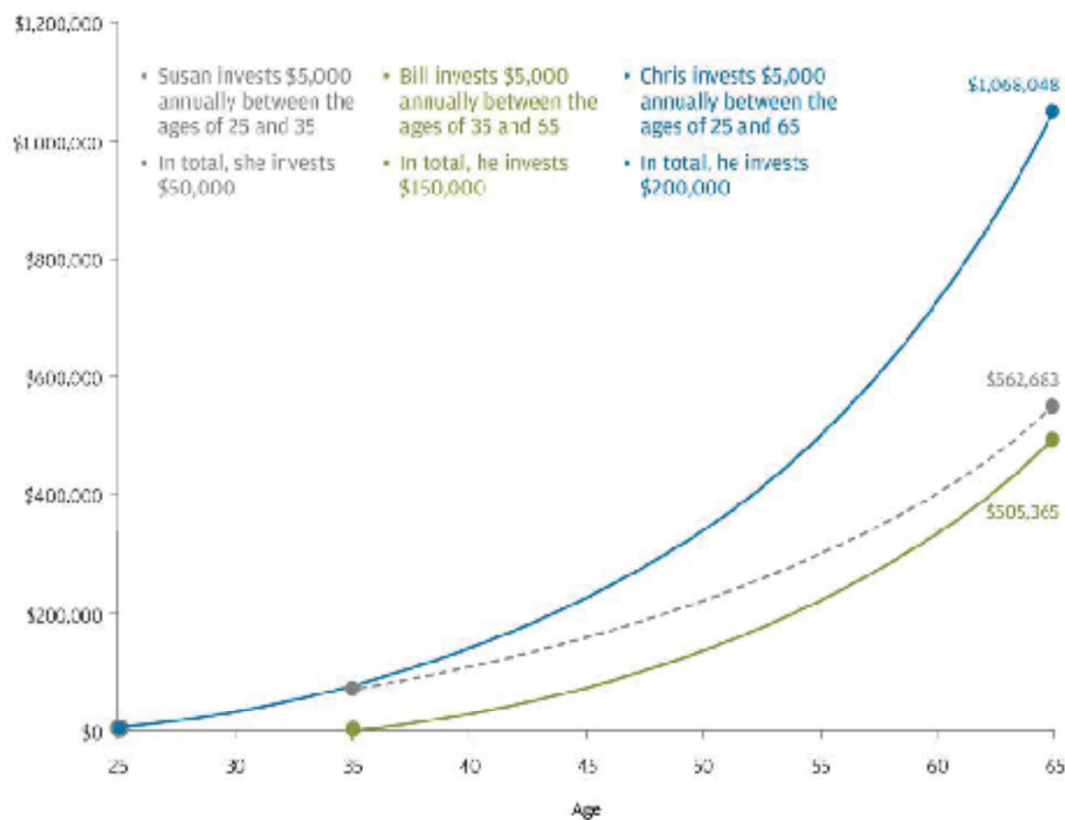


Why are retirement plans more important?

- **Protect participants' assets from creditors**
- **Diversification of owner's balance sheet**
- **Helps business owner build 2nd balance sheet value**
- **Attract and retain top quality staff**
- **Reward staff loyalty and longevity**
- **Employee deferrals reduces current year federal/state taxes**
- **Employer match is tax free to the employee**
 - **Tax deductible to the employer**



Growth of savings accounts



SAVING FUNDAMENTALS
 Harnessing the power of compounding can greatly impact the amount of savings over the long term.

The above example is for illustrative purposes only and not indicative of any investment. Account value in this example assumes a 7% annual return. Source: J.P. Morgan Asset Management.

Individual Retirement Accounts (IRA)

- **Individual owner sets up themselves**
 - **Do not have to cover any employees**
- **Contribution limit is \$5,500; \$6,500 with catch-up**
- **Can be deductible or Roth**
- **Income limits apply to deductible IRAs & Roth IRAs**
- **Must be established by the due date of individual's return**
- **Nominal start-up cost and annual fee**



SIMPLE-IRA Plan

- **Think of a Simple Plan as a Super IRA**
- **Employees can defer up to \$12,500 (\$15,500 if over 50)**
 - Contrast regular IRA - \$5,500 (\$6,500 if over 50)

Eligibility Requirements...

Company must have 100 or fewer employees

Employees are 100% vested from day one

All employees who earn \$5,000 in the current year must be allowed to participate

The plan can lower the \$5,000 earning requirement

The plan can require employees to have earned \$5,000 in past two years

Three steps to setup...

- 1. Execute a written agreement – Use IRS form 5304-SIMPLE (this is not sent to the IRS)**
- 2. Give employees certain information about the agreement**
- 3. Set up an IRA account for each employee, or allow employees to set up their own**



SIMPLE-IRA Plan cont.

Employer Match...

- **Employer match - lower of – *dollar for dollar, or 3% of employees pay***

Example 1: Employee earns \$30K – defers 20% or \$6,000

Employer only matches \$900 ($\$30K \times 3\% = \900)

Example 2: Employee earns \$30K – defers 1% or \$300

Employer match \$300 since this is less than 3% of employee's pay

- **Non-elective Contribution Option –**

Contribute 2% of everyone's pay regardless of participation

(Can apply \$5,000 earnings rule to qualify)

Example: Employee earns \$30K – Employer contribution is \$600



SIMPLE-401(k) Plan

- **Same as a Simple-IRA Plan -**

Following differences:

- 1. Can exclude employees under 21 years of age**
- 2. Can be required to perform one year of service**
- 3. Employee loans can be allowed**
- 4. Employer match limited to 3% of \$255,000 of wages**
- 5. Reduced matching percentage not allowed – must be 3%**

- **Setup –**

Adopt written plan, trust account, inform employees



Simplified Employee Pension - SEP

- **Plan Basics:**

- Employer contributes up to 25% of all eligible employee's wages
- Max \$53,000 contribution per employee (2016 amount)
- Employer contributions only
 - Employees cannot defer income to a SEP

- **What are wages:**

- Employee's box 1 form W-2 – Federal Taxable Wages
- Sole proprietor's net income on Schedule C (less 50% SE Tax)
- Partner's self-employment income K-1 form 1065 (less 50% SE Tax)



Simplified Employee Pension - *SEP cont.*

Eligibility Requirements

- Employee must be 21 years old
- Work for the company 3 out of last 5 years (any length of time)
Note: Employer can reduce this requirement
- Earned at least \$600 in the current year

Three steps to setup

- Execute a written agreement – Use IRS form 5305-SEP
(Form is not sent to the IRS)
- Give employees certain information about the agreement
- Set up an account for each employee



Simplified Employee Pension - *SEP cont...*

- Easy to set up and operate – no IRS filing requirements
- Flexible annual contributions – manage cash flow
- Employer must contribute equally for all eligible employees
 - Note: See requirements on preceding page
- Can establish plan and defer contribution decision until return due date including extension



401(k) Plans

- **Employees can defer up to \$18,000 (\$24,000 if over 50)**
 - **Contrast regular SIMPLE-IRA - \$12,500 (\$15,500 if over 50)**
- **Matching contribution can be discretionary**
 - **Up to 25% of employee wages**
 - **Overall combined Cap of \$53K – (\$59K if employee is over 50)**
- **Eligibility Requirements...**
 - **Must cover all employees age 21 or older**
 - **May require employee to work for up to 1 year**
 - **Plan document and annual admin fees - annual IRS form 5500**
 - **Plan must pass Top Heavy testing rules**
(cannot overly favor highly compensated)



Defined Benefit Plans

- Defines the retirement *benefit* employee will receive
- Contributions are based on a formula using factors such as:
 - Employee's earnings, age, years of employment, etc.
 - 100% contributions made by employer
 - Must make contributions for all eligible employees
 - 1 year – 1000 hrs. – so PT employees not included
- Possible to deduct large contributions annually
 - Example: Age 55 – Earns \$150K – DBP contribution = \$146K
- Need to be able to fund plan for at least 5 years
- Annual funding is *required* – *due date of return/extension*



CliftonLarsonAllen Wealth Advisors Services

- Initial and current design analysis and illustrations
- Implementation Services – Prepare plan document for the specific plan design chosen
- Annual Plan Administration – This includes the year-end valuation services, discrimination testing and preparation of form 5500
- Year- round advice and assistance as needed
- Plan Consulting – IRS/DOL notice response, audit assistance, EPCRS application preparation, etc.
- Plan Termination Services





Depreciation and Amortization



“If you claim depreciation on the hat, I can save you a fortune on your taxes. Call me.”



\$2,500 De Minimis Expensing

- Election to expense de minimis amounts
 - \$5,000 limit if applicable fin. stmt./written policy
 - \$2,500 limit for all others (no written policy)
 - Installation adds to per item cost if on same invoice
- Annual election: Statement in return
 - Elected limit applies to all property for year



Section 179 Enhancements

- Made permanent and indexed
 - \$500,000 limit – Adjusted for inflation each year
 - ◇ phase-out \$2,010,000 - \$2,510,000
- Air conditioning & heating units qualify
 - Sec. 1245 property requirement
 - I.E. Portable units – not central HVAC



Section 179: 15-Year Real Estate - Permanent

- Qualified leasehold improvement property
 - Caution: No related party leases, $\geq 80\%$ definition
 - 3 year test
 - Also qualifies for bonus depreciation through 2019
- Qualified retail improvement property
 - Interior portion – open to general public
 - 3 year test
- Qualified restaurant property
 - 50% sq. footage test



Section 179: 15-Year Real Estate cont.

- **May be a price to pay when selling resort**
- Sale of 15-yr. real estate
 - Subject to Sec. 1245 recapture at ord. tax rates on 179
 - Max rate 39.6%
- Contrast to 25% Sec 1250 recapture
- Or... better yet – 15% - 20% capital gain rate



50% Bonus Depreciation

- **2017 – 50%**
- **2018 – 40%**
- **2019 – 30%**
 - Not made permanent by PATH Act
- **Eligible: New (not used) – up to 20 year life**
 - Can create a loss – Sec 179 cannot



New! Qualified Improvement Property (QIP)

- Opportunity for 50% bonus on 39 yr. bldg.
- Bonus depreciation for 2016-2019 for QIP:
 - Improvement to building interior
 - Improvement after date building first placed in service
 - Not an enlargement, elevator, escalator, or structural
 - Most interior cabin improvements qualify!



The 2013 Regulations

“Substantially prolong the useful life” and “materially increase in value”
Replaced with...

- 1 • Betterments
- 2 • Restoration
- 3 • Adapt to a new, different use



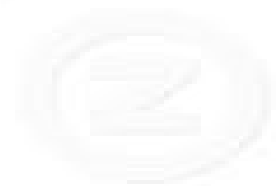
The 33% Principle

- Replaced 1 of 3 furnaces – Repair
- Replaced 3 of 10 rooftop units – Repair
- Replaced 30% of wiring – Repair
- Replaced 100% of wiring – Capitalize
- Replaced 8 of 20 sinks – Repair
- Replace all of the plumbing fixtures - Capitalize
- Replaced 100 of 300 windows – Repair
- Replaced 200 of 300 windows – Capitalize
- Replace 10% of the hotel flooring – Repair
- Replace 40% of the hotel flooring - Capitalize





The IRS!
We're Not
Happy Until
You're Not
Happy!



Partners and >2% S Shareholders

- Entity must pay/reimb. health ins. for owner to claim 100% SE health ins. deduction in 1040
- Notice 2015-17 relieves \$100/day penalty for S corp. reimb./pmt. of health insurance
 - Indefinite; until further guidance
 - Relief should apply for partners also



S Corps

- Charitable Contribution of Appreciated Property
 - Basis in S corp. stock decreased asset basis not FMV charitable deduction
- PATH Act makes permanent, retroactive to 2015
- S-Corp S/H compensation
 - Required to pay “reasonable salary”
 - We’re seeing more IRS reviews on this issue



Five-Year Built-in Gain Recognition Period

- Built-in Gains Tax - Form C-Corps, now S-Corp
 - 35% - Gains/income from C corp. years
 - Recognition period was: First 10 yrs. in S status
- PATH Act: Permanent 5 yr. recognition period

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Time to Get Serious About 1099s

New penalties based on due date

– 2015 1099s are due February 28, 2016

<u>Failure</u>	<u>2015</u>	<u>2016</u>
• To file with IRS	\$100	\$250
• To furnish to payee	<u>100</u>	<u>250</u>
– Total Penalty...	\$200	\$500
• Intentional disregard - to IRS	\$250	\$500
• Intentional disregard - to payee	<u>250</u>	<u>500</u>
– Total Penalty...	\$500	\$1000

“First time abate” may not be available even with clean history



Work Opportunity Tax Credit (WOTC)

- PATH Act: Retroactively restored for '15 and extended thru 2019
- 40% credit of first \$6,000 wages = \$2400
- Must obtain certification local agency
- Complete form 8850 on/before first work day
- Target groups –
 - Long-term unemployed, certain vets & summer youth workers, recipients of various assistance programs, ex felons



College Credit and Deduction Changes

Effective in 2016:

- No college credits or deductions without Form 1098-T
 - *Terrell*: Taxpayer claims amount paid, not 1098-T box 1 (amt. rec'd.) or box 2 (amt. billed)
- Colleges must report their EIN on Form 1098-T
- No AOTC without EIN of college
- No AOTC without a taxpayer and student SSN or TIN



Before you depart . . .

THANK YOU
for your attendance
and participation.

**Give Us Your
Feedback!**

