

NEW REPORTING AND RECORD KEEPING REQUIREMENTS FOR BUSINESSES

Effective January 1, 2014 significant tax law regulations were published that will affect **every** person that has business or rental activities. These new regulations will require specific action be taken by business people to comply with the regulations which clarify when and how expenditures and improvements must be capitalized or deducted as ordinary expense. Unfortunately, these new reporting requirements will significantly increase the recordkeeping and accounting costs for all businesses for the tax year 2014.

In order to comply with the final regulations businesses may be required to change the way they treat certain expenditures for tax purposes which is considered a change in accounting method. Whenever you change your method of accounting for tax return purposes, a Form 3115 must be filed. Because the tax law regulations have changed the treatment of multiple capitalization issues, some business owners may have to file multiple Forms 3115 in order to be in compliance with the new law.

Form 3115 - Application for Change in Accounting Method

Form 3115 is an 8-page form (excluding required attachments) that is filed with the tax return. A signed paper copy is also mailed to the IRS. The Form 3115 is due by the due date of your normal return, including extensions.

Will I have to file a 3115?

A Form 3115 may be required for the following:

- An individual who files business income on Schedule C or Schedule F
- An individual who owns rental properties reported on Schedule E
- S-Corporations
- C-Corporations
- Partnerships and Limited Liability Companies (including single member LLC's)

EXCEPTIONS:

- Any business that will be dissolved by the end of 2014 (last year of business)
- Any business that started in 2013 or 2014
- All individuals who were not required to file Schedule C, Schedule E or Schedule F on their 2013 tax returns
- Any business with minimal repairs and supply expenditures.
- Any business whose tax accounting in prior years is in compliance with the new regulations (unfortunately this is a facts and circumstances, case by case determination).

The Silver Lining

Despite the burden that these new regulations have placed upon us, there are several business-friendly provisions in the new regulations that could benefit businesses for 2014 and later years. Some of these benefits include:

- Partial asset dispositions. A partial asset disposition can occur if certain improvements are made to a business or rental real estate property. For example, you purchased a building for \$400,000 in 2012. In 2014 you replaced the roof. Under the new regulations you will be allowed to take **a loss** for the value of the old roof on your 2014 income tax return. Also for this year only, you may take in 2014 a loss for “dispositions” due to property additions in prior years!
- Deduction available as a Safe Harbor for small building owners: This safe harbor allows owners of rental properties to deduct certain improvements to their property currently rather than capitalize those expenditures. The rule notes that if the total cost for the year of repairs, maintenance, and building improvements does not exceed 2% of the cost of the building the owner can expense those improvements. For example, you purchased a \$400,000 rental property in 2012. In 2014 you paid \$7,000 for a new furnace and miscellaneous repairs. Under the new regulations all of these costs, including the furnace would be currently deductible.

Generally speaking the rules for determining what expenses are considered repairs and maintenance are more favorable than in years past. For example, almost every roof replacement made will under the new rules be expensed rather than capitalized and depreciated.

Tax-wise 2014 will be a pivotal year for most business entities. Those who conform to the new regulations will go into tax years 2015 and beyond with no additional worries about filing Form 3115. They will likely forget the form number and go on with their business as usual.

Discuss Changes with Your Tax Advisor

Preparing personal and business tax returns can be a complicated and confusing process. Tax laws are constantly changing, and other developments -- such as new IRS regulations and new court decisions -- can affect your return. For expert assistance please contact our office at (631) 474-9400.