



NFIB

PROTECTING THE FUTURE OF SMALL BUSINESS®

2017

**SMALL BUSINESS
TAX GUIDE**

AN NFIB E-BOOK

ESSENTIAL TIPS FOR PLANNING AND SAVING ON TAXES IN 2017

The header features a horizontal bar with five colored segments: red, cyan, green, purple, and yellow. Below this bar, a dark grey background contains several white line-art icons: a box, a dollar sign, a smartphone, a document with lines, and various writing instruments like pens and pencils.

OVERVIEW

- 3 What's New in 2017**
- 4 Tax Deductions You Don't Want to Miss**
- 5 Tax Planning To-Do List**
- 7 How to Get Ready for an Audit**
- 8 What's Ahead: Future Tax Reform**
- 9 Why NFIB Fights for Tax Reform**

WHAT'S NEW IN 2017

Congress tweaks the tax code each year, and 2016 was no different. Here's what you need to know in 2017.

DATE CHANGES

Deadlines changed for both information returns and business tax returns.

Information Returns

W-2 and 1099-MISC forms must now be submitted to the IRS and the Social Security Administration (SSA) on the same date they're due to the taxpayer: Jan. 31. In the past, employers gave the forms to employees by Jan. 31 and then submitted them to the IRS and SSA at a later date.

Business Tax Returns

The filing deadlines for partnerships and C corporations have also changed. Calendar-year partnerships must file their returns by March 15. Fiscal-year partnerships must file their returns on the 15th day of the third month following the close of the fiscal year.

If you need extra time to file, partnerships are also now limited to a six-month extension on filing their returns.

SMALL BUSINESS HEALTHCARE RELIEF ACT

In the past, business owners who did not offer group health insurance to employees were still able to assist them with healthcare expenses by directly paying for or providing tax-free reimbursements for individual health insurance policies. The IRS then prohibited these reimbursement arrangements on July 1, 2015—and instituted penalties of \$100 per day, per employee for doing so.

NFIB pushed hard to overturn this IRS guidance and, in 2016, helped secure the enactment of the 21st Century Cures Act (H.R. 34), which contained the Small Business Healthcare Relief Act. This legislation restores the flexibility employers need to assist employees with healthcare costs. It also shields small businesses from these severe penalties.



INCREASED ACA PENALTIES

The penalty for not having health insurance—according to the Affordable Care Act's individual mandate—has gone up. The individual mandate penalty for 2016 is 2.5 percent of household income or \$695 per adult (\$347.50 per child younger than 18), whichever is higher. The fee is capped at \$2,085.

INCREASED ESTATE TAX EXEMPTION

Thanks to the advocacy efforts of NFIB and small business owners nationwide, the exemption from the federal estate tax was indexed to inflation beginning in 2012. For 2016, the estate tax exemption increased from \$5.43 million (\$10.86 million per couple) to \$5.45 million (\$10.9 million per couple).

5 TAX DEDUCTIONS YOU DON'T WANT TO MISS

NFIB and Tom Wheelwright, author of *Tax-Free Wealth* and CEO of ProVision Wealth, a CPA firm in Tempe, Arizona, share five key tax deductions that small businesses shouldn't overlook.

1. SECTION 179 EXPENSING AND BONUS DEPRECIATION

Two of the most important tax provisions approved by Congress in December 2015 are Section 179 expensing and bonus depreciation, which allow businesses to immediately deduct expenses paid for equipment purchases that are typically depreciated over many years.

These two provisions are often conflated, but they're two distinct expensing deductions—and they can mean big savings for businesses that made large investments in the previous year. Check with your tax preparer on which purchases might be eligible for either or both Section 179 and bonus depreciation.

2. HOME OFFICE AND CAR

This allows you to deduct expenses for the business use of your home and to increase the deduction you claim for the business use of your car.

"Commutes aren't deductible," Wheelwright says. "If you work from home, your commute is the walk from your bedroom to the office, which means your first and last trip of the day outside your house—to or from visiting a client—are tax-deductible. That can add 30 to 40 percent to the deduction for your car."

3. MEALS AND ENTERTAINMENT

When their primary purpose is business-related, meals and entertainment are 50 percent tax-deductible.

"Most small business owners are consumed with their business," Wheelwright says. "They think, 'I'm not at a business dinner; this is date night with my spouse.' But if you're having a legitimate business conversation, that's a deductible meal."

4. TRAVEL

Travel during which you conduct legitimate business on Monday through Friday is 100 percent tax-deductible. "If you spend more than 50 percent of your day—four-plus hours—working while you're on vacation, that travel is deductible," Wheelwright says.

5. C CORPORATIONS VS. S CORPORATIONS

The No. 1 way for most small businesses to reduce their tax burden is to re-evaluate their business structure.

"A lot of small businesses are sole proprietorships or partnerships that report their business income on a Schedule C or Form 1065. That's a big mistake," Wheelwright says. "One hundred percent of your earnings could be subject to self-employment tax, whereas if you're an S corporation you only have to pay self-employment tax on a portion of your earnings."

C corporations are also tax-disadvantaged.

"If you're a C corporation, you pay a double tax," he says. "The corporation is taxed on its earnings, and you're taxed again when you take those earnings out of the corporation as dividends."

TAX PLANNING TO-DO LIST

Tax planning and preparation is a year-round endeavor. Here's a quarterly checklist to help you stay on top of your taxes.

Q2 2017

- Make your quarterly estimated tax payment: Your first-quarter payment for tax year 2017 is due April 18.
- If your business is a sole proprietorship, partnership, or LLC, file your 2016 taxes. The deadline for individual tax returns is also April 18.
- Determine your payroll tax schedule for tax year 2017, which varies depending on the amount of payroll taxes you accumulate during what the IRS calls a “lookback period.” If your payroll tax liability is \$50,000 or less during the lookback period, you must deposit taxes by the 15th of the month following the month of the liability. All taxes withheld and matching for paychecks prepared during the month of April, for example, are due May 15. If your total tax liability is greater than \$50,000 during the lookback period, taxes must be deposited on a semiweekly schedule.
- If you have an IRA and haven't yet made your maximum annual contribution of \$5,500 for 2016, you still have time to do so: IRA contributions can be applied to tax year 2016 through April 18. If you don't have an IRA, establishing one now could reduce your 2017 tax bill.
- Make your quarterly estimated tax payment: Your second-quarter payment for tax year 2017 is due June 15.

Q3 2017

- Are you taking a summer vacation? If you work on your business at least 50 percent of the day, Monday through Friday, you can deduct the cost of your travel.
- If you have children who are old enough to work, consider hiring them for the summer. Your son or daughter can earn up to the standard deduction amount (\$6,300) tax free, and you're entitled to a business deduction for the wages paid.
- Consider scheduling a midyear checkup with your tax professional. Reviewing your business income and expenses year-to-date might warrant a change in tax strategy.
- Make your quarterly estimated tax payment: Your third-quarter payment for tax year 2017 is due Sept. 15.

Q4 2017

- Consider scheduling an end-of-year meeting with your tax professional to discuss what moves you can still make to reduce your 2017 tax bill.
- Calculate your income and quarterly estimated tax payments year-to-date. If you think you've overpaid or underpaid, consider increasing or decreasing your forthcoming fourth-quarter payment, which is due in January.
- Did you give gifts to clients during the holidays? You can deduct up to \$25 per person per year for business-related gifts.



TAX PLANNING TO-DO LIST CONTINUED

Q1 2018

- Make your quarterly estimated tax payment: Your fourth and final payment for tax year 2017 is due Jan. 16, 2018.
- Mail out Form W-2 to employees and Form 1099 to non-employees and contractors. In a recent change, forms must be delivered to both employees/contractors and the IRS/SSA by Jan. 31.
- Whether you keep paper or digital records, prepare your recordkeeping apparatus for 2018 to help you keep track of all potentially deductible items this year.
- Schedule your annual tax appointment with your tax professional. Set up a meeting well before April 15 in case you need to locate missing records or resolve other issues prior to filing.
- Assemble and organize all of your tax data for tax year 2017, including forms W-2 and 1099, as well as receipts for any business deductions you plan to take.
- File forms 1099 with the IRS and W-2 with the Social Security Administration and the employee. The deadline is Jan. 31, 2018.
- If your business is a partnership or S corporation, file your 2017 taxes. The deadline for these corporate tax returns is March 15. (C corporation tax returns are now due by April 15.)
- File Form 2553 with the IRS if you intend to convert your business to an S corporation; all S corporation elections must be made by March 15.

Q2 2018

- If your business is a C corporation, file your 2017 taxes. This corporate tax return is due April 15.



HOW TO GET READY FOR AN AUDIT

Will you panic if the IRS selects your small business for an audit? Here are four tips on how to make sure you're prepared.



1. KEEP COPIES

“Have a copy of the return you filed with the IRS,” says Nick Spoltore, director of tax and advisory content for Surgent Professional Education in Devon, Pennsylvania, which provides continuing professional education for CPAs. Section 6107 of the tax code only requires your tax preparer to keep a copy of your return or a list of the returns prepared for three years, so do not depend on them to have copies of everything you need in case of an audit. Make sure you retain a copy of each return; otherwise you may find yourself trying to get a copy from the IRS.

2. MAINTAIN COMPLETE AND ACCURATE RECORDS

You'll always be prepared for an audit if you keep complete and accurate records that support every item of income and expense on your return.

3. SUBSTANTIATION IS THE KEY

“Remember that the audit presents a time when a taxpayer can submit substantiation for expenses not previously claimed on the return,” Spoltore says. So, for example, say you inadvertently omitted a charitable contribution from your Schedule A. Including it during the audit process—unless it's barred by time—is permitted.

4. KNOW YOUR REPRESENTATION

If you are selected for an audit, don't go it alone. You'll be more prepared if you know ahead of time who can represent you, such as your accountant or an attorney.

If you have recently been selected for an audit, [click here for six tips on what to do next.](#)

WHAT'S AHEAD: FUTURE TAX REFORM

Matthew Turkstra, NFIB's senior manager of government relations, outlines a few tax reform measures that could be on the horizon under the new administration.

LOWER PASS-THROUGH TAX RATES

In 2016, House Republicans released a tax reform blueprint as part of their "A Better Way" agenda. Included in that blueprint was a proposal for taxing pass-through businesses at a lower rate than the individual tax rate, which currently tops out at 39.6 percent. Under the proposal, the rate for pass-through businesses would be decreased to a maximum of 25 percent.

LOWER CORPORATE RATE

The Better Way tax reform blueprint also called for lowering the tax rate on corporations to 20 percent from 35 percent. NFIB is fighting to make sure that no small business owner is paying a higher rate than any C corporation.

"The tax code strongly favors large corporations," NFIB President and CEO Juanita Duggan says. "NFIB believes that no small business should be paying a higher tax rate than ExxonMobil."

UNIFIED BUSINESS TAX RATE

Trump has called for a unified 15 percent business tax rate that would apply to C corporations as well as pass-through businesses.

Following the results of the November 2016 election, small business confidence and optimism soared. With new leaders in place in Washington, expectations are high that significant tax reform can soon be a priority. NFIB will be heavily engaged in the process.

Take action! Visit [NFIB.com/TaxReform](https://www.nfib.com/TaxReform) to send a letter to Congress about how tax reform would affect your business. [Click here to send a letter to Congress today.](#)



WHY NFIB FIGHTS FOR TAX REFORM

Tax reform that starts with small business will unleash a strong American economy.

Small businesses are the backbone of the U.S. economy. They employ about half of the American private-sector workforce, produce about half the national private nonfarm GDP, represent 99.7 percent of all U.S. employers, and are the driving force behind job creation. So, to truly unleash economic growth, tax reform must start with small business.

And yet, small businesses often face a higher tax rate than their corporate competitors. It's no surprise that five of the top 10 biggest problems facing small business owners are tax-related, according to [NFIB's 2016 Small Business Problems & Priorities report](#):

- Federal taxes on business income (No. 3)
- Tax complexity (No. 5)
- Frequent changes in federal tax laws and rules (No. 7)
- Property taxes (No. 8)
- State taxes on business income (No. 9)

High tax rates, tax code complexity, and ever-changing rules take away time and resources that small businesses need to be competitive and to invest in jobs, technology, expansion, and innovation. We're working to change that—and we [urge you to join us in the fight](#).

Visit [NFIB.com/TaxReform](https://www.nfib.com/TaxReform) to tell Congress that tax reform starts with small business.

