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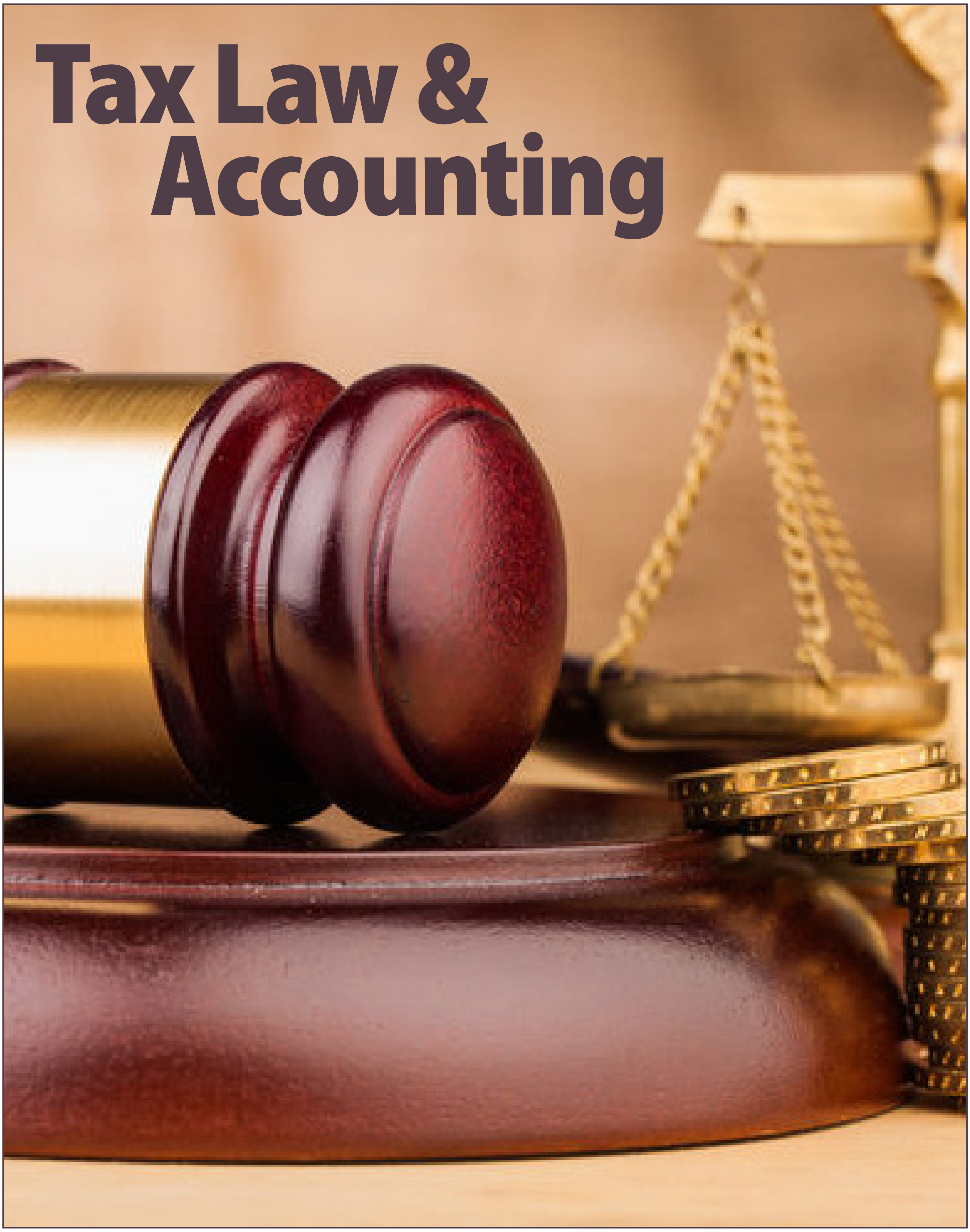

AN ADVERTISING SUPPLEMENT TO THE SAN DIEGO BUSINESS JOURNAL

ADVERTORIAL

Track the Tax Breaks

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A number of valuable business and individual tax breaks were extended or made permanent under this year's extender law, the Protecting Americans from Tax Hikes (PATH) Act of 2015.

Extender Highlights

Here are just a few of the most popular tax incentives and credits extended under the PATH Act.

Section 179 Expensing Election

Taxpayers can elect to expense tangible personal property and select qualified real property, which allows an immediate deduction of the full value of the asset. If you're a small business (under $10 million in revenue) eligible for full Section 179 expensing, doing so may provide a greater benefit than bonus depreciation, because the expensing provision allows businesses to immediately deduct (or expense) the full cost of certain property acquired instead of recovering the costs more slowly through depreciation deductions over multiple years. Moreover, you can use Section 179 expensing for both new and used property.

Starting in 2015, the PATH Act makes permanent the 2014 expensing limits of up to $500,000 in qualified new or used assets. The election is subject to a dollar-for-dollar phaseout once the cost of all qualifying property placed in service during the tax year exceeds $2 million.

Without the PATH Act, the expensing limit and the phaseout amounts for 2015 would have been greatly reduced. Keep in mind the election can offset only net taxable income, and it can't reduce income below $0 to create a net operating loss.

Solar and Wind Tax Credits

The Military Construction and Veterans Affairs and Related Agencies Appropriations Act of 2016 (which included the PATH Act) also revised the Section 45 production tax credit (PTC) and the Section 48 investment tax credit (ITC).

Qualifying wind facilities with construction beginning before January 1, 2017, are eligible for the PTC at its current rate: 2.3 cents per kilowatt, adjusted for inflation. The PTC rate is reduced when construction begins afterward by:

- 20 percent if construction begins in 2017
- 40 percent if construction begins in 2018
- 60 percent if construction begins in 2019

Qualifying nonwind facilities are eligible for the current PTC rate if construction begins before January 1, 2017.

Qualifying wind facilities may elect the ITC instead if construction begins before January 1, 2020. In addition, the ITC no longer decreases to 10 percent after December 31, 2016, as originally scheduled. Instead, it remains at 30 percent for qualifying projects with construction beginning before January 1, 2020. The ITC will reduce to:

- 26 percent if construction begins in 2020
- 22 percent if construction begins in 2021
- 10 percent if construction begins after December 31, 2021

Unless placed in service before January 1, 2024, any project with construction beginning before January 1, 2022, earns only a 10 percent ITC.

The Section 25D credit for residential solar systems was also extended for systems placed in service before January 1, 2022, subject to the same reduction schedule as the ITC.

Broader Access to the Federal R&D Tax Credit

The now-permanent federal R&D tax credit is now much more accessible for small and midsize businesses, including those that don't have revenue, pay the alternative minimum tax (AMT), or want to offset payroll tax.

Qualifying businesses can now apply the credit against payroll tax for up to the first five years they have gross receipts. Small businesses (an average of less than $50 million in gross revenue over the prior three years) can offset AMT with R&D credits generated after January 1, 2016. In the past, these credits were suspended and carried forward for up to 20 years, until the company was no longer subject to the AMT.

The bottom line: credits that may previously have been unusable can now fund these companies' reinvestment in R&D. And because the R&D credit is now permanent, companies can rely on it when deciding where to invest in R&D—whether in the United States or abroad.

Work Opportunity Tax Credit (WOTC)

The WOTC applies to businesses that hire members of targeted groups. It's designed to encourage businesses to hire individuals receiving government assistance so they can become more self-sufficient. The PATH Act extends the tax credit through December 31, 2019.

The maximum credit per new hire can range from $2,400 to $9,600, depending on the targeted group the employee belongs to, the hours worked, and the wages earned. Target groups continue to include:

- Members of families that receive Supplemental Nutrition Assistance Program benefits (food stamps)
- Members of families that receive short- or long-term Temporary Assistance to Needy Families or Aid to Families with Dependent Children (welfare)
- Qualified (unemployed or disabled) veterans
- Qualified ex-felons or pardoned, paroled, or work-release individuals
- Individuals who have completed or are completing vocational rehabilitation programs
- Qualified "summer youth," that is, individuals 16 or 17 years old living in an empowerment zone
- Individuals receiving Supplemental Security income
- Designated community residents (such as individuals living within an empowerment zone)

The PATH Act also created a new target group: individuals unemployed for at least 27 consecutive weeks who received unemployment compensation under state or federal law during that period.

Because related forms must be filed with an appropriate state agency within 28 days of a new hire's start date, it's important to understand which employees qualify and what's required to claim the credits well in advance of a new hire's start date. Employers that collected this information throughout 2015 in anticipation of the extension will be able to use that information to claim the credit retroactively if the employer completes and submits the proper forms by June 29, 2016—as granted by the PATH Act's transitional relief.

Empowerment Zone Tax Credit

This credit provides businesses with an incentive to hire individuals who live and work in a federally designated empowerment zone. The PATH Act extended the credit retroactively to apply to the period from January 1, 2015, through December 31, 2016.

The credit is equal to 20 percent of the first $15,000 in wages earned in a taxable year if the employee lives and works in an empowerment zone. Subject to the statute of limitations, businesses can retroactively claim this credit on their federal income tax return—sometimes in addition to various state-level enterprise zone credits, which can be worth up to 50 percent of a qualifying employee's hourly wage.

Start Planning Your PATH

The PATH Act's temporary and permanent extensions of valuable business tax breaks provide significant tax planning opportunities that may be worth looking into. Work with your accountant to learn which incentives your business may be eligible to claim.

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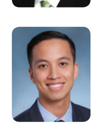

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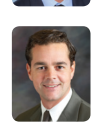

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