

# Small Business 2015 Outlook

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# Table of Contents



## ***For FY 2014-2015***

1

*Topics covered under this section are:*

*Tax Woes and Challenges for Small Business Owners*

2

*Tax Tips for Filing 2014 Returns*

3

*The Taxation Year Ahead*

4



## ***For Structuring a Business***

5

*Topics covered under this section are:*

*Choosing the Right Business Structure*

6

*Benefits of Incorporation*

7



## ***For Certified Public Accountants (CPAs)***

8

*Challenges Faced by CPAs & Small Business Owners*

9



## ***A Perspective***

10

*Important Tax Reforms That Will Affect You 2015 Onwards*

11

*Small Business Outlook 2015*

13



# For FY 2014-2015

*Tax Woes and Challenges for Small Business Owners*

2

*Tax Tips for Filing 2014 Returns*

3

*The Taxation Year Ahead*

4

# Tax Woes and Challenges for Small Business Owners

With the tax season upon us, small business owners, like every tax payer, often have difficulty understanding the complicated tax codes. Given the amount of intricacies, it is not easy to get a grasp of the various taxation policies. Often small businesses struggle because they try to do things themselves or because they did not hire the right accountant. To avoid the hassles with tax authorities, small business owners are required to understand two basic things:

- Tax codes are complicated
- Professional accountants are paid for their knowledge of ever changing tax laws

For small business owners, it is always wise to invest in qualified accountants and lawyers to keep tax woes at bay. The taxation landscape and reforms such as Obamacare coming up in 2015 can be better understood with expert guidance.



# Tax Tips for Filing 2014 Returns



Small businesses have a retirement account opportunity that can help them in better tax planning. It is imperative for them to choose the right tax deferred vehicle before filing IT returns. Consider taking up a small business retirement account such as a SEP-IRA, Simple IRA, Individual 401(k) or any other qualified retirement plan. Each of these plans are beneficial for the following reasons:

- Contributions are tax-deductible and grow tax-deferred
- If you open a qualified retirement account by Dec. 31, you have until the date you file next year to make 2014 contributions

Retirement plan contributions are made directly from the business income thus, making that amount tax free. Small business owners are advised to have one such plan or account. Many business owners have 401(K) plan for their employees but they seldom opt it for themselves, which should not be the case. Having an individual 401(K), or a SEP-IRA, Simple IRA can serve as a great tax deferred vehicle for any entrepreneur.

# The Taxation Year Ahead

Every year there are a number of tax deductions that expire, 2014 was exceptionally significant in this regard as a lot many tax deferred measures that were introduced during the Great Recession have come to an end.

## ***Tax Deductions that Expired in 2014***

The five-year tax deferral on buying an equipment will not be continued in 2015. Also, IRS recently announced new mileage rates for those who keep a track of business mileage. For 2014, mileage rate was 56 cents per business mile while in 2015 it has gone up to 57.50 cents.

## ***Seek Expert Advice***

With a number of changes expected this year, consult with your accountant to understand tax laws and reforms better. If you are still to plan a meeting with your CPA, schedule as early in the year as possible.

## ***Avoid Last Minute Rush***

Most of the business owners wait until the last minute, which causes things to be rushed. CPA and accountants have maximum return filing requests around March 15th. Hence in order to avoid the last minute rush, one should contact their accounting resources well within time to get a better perspective of things and have a prior discussion on skeptical issues as well.





# For Structuring a Business

*Choosing the Right Business Structure*

6

*Benefits of Incorporation*

7

# Choosing the Right Business Structure

There are two basic business structures that a business owner can opt for:

## *Sole Proprietorships*

Sole proprietorship refers to the simple idea of obtaining a license and conducting business. Under such a scenario, an owner can report any business profit or loss on his own personal income taxes. This means the entrepreneur uses his personal Social Security number and his tax payer identification number for business transactions.

It's easy to get up and running as a sole proprietor. However, the bad thing about being involved in a sole proprietorship is that one leaves oneself exposed to any and every type of losses that might be filed against the business.

Following are the key highlights of sole proprietorship:

- Owner remains personally liable for lawsuits filed against the business
- No state filing required to form a sole proprietorship
- Easy to form and operate
- Owner reports business profit and loss on their personal tax return

## *Limited Liability Companies (LLCs) and Corporations (C-Corps)*

Limited Liability Companies (LLCs) or Corporations (C-Corps) refer to independent business structures that have a separate legal entity against its owners. Basically it's a brick wall between owner's personal and business assets. Once a business is filed under LLC / C-Corp / S-Corp, it gets a separate tax identification number or an EIN (Employer Identification Number) for its entity, thus, helping keep personal assets away from business debt.

Following are the key highlights of sole LLCs or C-Corps:

- Independent legal structures separate from its owners
- Help separate personal assets from business debts
- Owners can leverage the tax advantages of incorporation





# Benefits of Incorporating a Business

Incorporating a business means structuring a company as an individual legal entity which brings in a number of benefits for the owners. It not only allows hassle-free operations but also adds credibility to the business in question. Some of the core benefits of incorporating a business are mentioned as under:

**Personal Asset Protection:** Both Corporations and LLCs allow owners to separate and protect their personal assets.

**Additional Credibility and Name Protection:** Adding "Inc." or "LLC" after your business name can add instant legitimacy and authority. Consumers, vendors, and partners frequently prefer to do business with an incorporated company.

**Perpetual Existence:** Corporations and LLCs can continue to exist even if ownership or management changes. Sole proprietorships and partnerships just end if an owner dies or leaves the business.

**Tax Flexibility:** An LLC is taxed at the same rate as a sole proprietorship while providing limited exposure to personal liability. Though profit and loss typically pass through an LLC and get reported on the personal income tax returns of owners, an LLC can also elect to be taxed as a corporation.

Also, when an entrepreneur sets up a corporation, he or she is taxed on both the individual and corporate levels. However, a corporation can avoid double taxation of corporate profits and dividends by electing Subchapter S tax status.

**Deductible Expenses:** Both corporations and LLCs may deduct normal business expenses, including salaries, before they allocate income to owners.





# For Certified Public Accountants (CPAs)

*Challenges Faced by CPAs & Small Business Owners*

9

# Challenges Faced by CPAs & Small Business Owners

CPAs or Certified Public Accountants belong to that segment of small business owners whose line of service is falling prey to technology. With majority of personal tax returns filed online, CPA businesses are fast losing its significance in the service market. Accounting profession that was once considered a very stable profession, is now paying toll to the fast paced lifestyle. Though, while on one hand self-service websites and software packages are cannibalizing the traditional CPA services, on the other, small business owners are facing new set of problems using such software and service websites, like:

- Lack of insightful advice on how to improve cash flow
- Incomplete or incorrect paperwork
- High loan decline rates

Thus, given the issues attached with online IT return filing, we can conclude that not all is lost for accounting professionals. There's still a lot of scope for CPAs to maintain their foothold, all that they need to do is expand their financial service offerings to compete in the marketplace.





# A Perspective

*Important Tax Reforms That Will Affect You 2015 Onwards*

11

*Small Business Outlook 2015*

13



# Important Tax Reforms That Will Affect You 2015 Onwards

## **1. Affordable Care Act or Obamacare**

The Affordable Care Act or Obamacare will finally reflect its tax effects in 2015. A fresh lot of forms and documentation would be required in compliance with the new act. Under Obamacare's individual shared responsibility provision, one needs to update IRS about the required minimum health care coverage one has or if in case it is exempted. For qualified coverage, form 1095-C or 1095-B will be provided by the employer or insurer respectively. However, in case of inadequate coverage or non-exemption, one would need to pay penalty while filing the return. New Form 8965 will be used for both exemption claims and penalty calculations.

## **2. Obamacare and Life-Change Costs**

While filing your 2014 returns, if you happen to realize that your premium tax credit is off, make sure you skip it the next filing season. Since changes in life affect the health coverage credit one can claim, you are required to report the changes to the health care exchange. This would help in keeping the dues or refunds in line. Birth/adoption, marriage/divorce, moving, job change and increase/decrease in household income are the factors that can directly affect tax credit.

## **3. Restricted IRA Rollovers**

Earlier IRA owners were allowed to make short term loans to themselves, but not anymore. With a February 2014 U.S. Tax Court ruling, the unlimited IRA rollover has been invalidated. As per the new rule, no matter how many IRAs you have, you are allowed to make only one IRA-to-IRA rollover per year.



#### ***4. FSA Carry-Over Rule***

Medical flexible spending accounts, or FSAs, are a popular workplace benefit for employees under which they can set away a part of their income before taxes. This money is then used for paying out-of-pocket medical costs. Going forward, the FSA has become more flexible with the U.S. Treasury and IRS announcing that rather than forfeiting the unused FSA amount at the end of the benefit year, employees can now carry forward up to \$500 to the next benefit year.

#### ***5. Real Taxes on Virtual Currency***

Since virtual currencies like bitcoin are used as actual coins and paper bills, but don't enjoy a legal tender status, IRS has decided to treat currency as property instead of money. As per the latest declaration by IRS, wages paid to employees in virtual currency would be counted as taxable income. Also, the fair market value of virtual currency would be subjected to Medicare payroll taxes, Social Security, federal income tax withholding and unemployment taxes. It must as well be reported in employee's W-2 form and as for independent contractors, they need to report their virtual income payments on 1099 forms.

# Small Business Outlook 2015

This year looks to be a good year for small business owners. Oil prices are low, the economy is very stable and banks and other lenders have opened the spigot on small business lending.

## *Towards Brighter Growth Prospects.*

The businesses that survived the recession can now grow. Small business owners who had lost their confidence in the economy can think positive now. Entrepreneurs can consider investing more money into their businesses and/or start looking for more capital.

## *A Word of Caution.*

While aiming for brighter growth prospects, there is a word of caution. Do remember that the nature and the kind of businesses that were succeeding previously are changing now. Today, as an entrepreneur, it's necessary for you to invest money in technology. In fact, it is vital for small business owners to have a good website, to have a good online presence and also, to have a good understanding of marketing oneself. For any business -- whether it sells online or not, having a good online presence is critical.

## *Now is the Time!*

If you are planning to grow your company or if you are planning to acquire an existing one, now is the time to do it. In fact, if you wait for another year to grow, you'll be late. Don't be afraid to take risks, make the most of the blooming economy as it's a great time to expand and take your business to the next level.



# Thank you !

To hear Rohit Arora, CEO Biz2Credit, talk about Small Business 2015 Outlook at a recent webinar, [click here](#).

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