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Tax Tips – It's Not Too Late To Do Something For Your 2014 Return

By Dennis Monroe

Even though the new year has begun, it is not too late to take advantage of some tax savings ideas on your 2014 tax returns. Let's look at some things you should not forget.

1. Depreciation. Thankfully at the last minute, Congress passed the extension of the favorable depreciation rules for both first-year bonus depreciation and Section 179. It would have been an injustice if this had not been done because Congress and the President had not thought about the ramifications of letting these provisions expire. There are a number of other rules that expired that need to be reconsidered and restated.

A. Here is a breakdown of favorable depreciation. There are two distinct deductions plus there are more generous deductions for special types of property.

- There is a **first-year depreciation** which has been utilized for years but the property has to be placed in service in 2014.
- There is **Section 179 depreciation** which has been in effect for years and also is applicable for the restaurant owners

Be sure you take advantage of both the bonus depreciation and Section 179. These special depreciation rules can be opted out of if the taxpayer would prefer to take the depreciation over a longer period of time.

B. **Cost segregation study** for buildings and leasehold improvements. These studies effectively analyze what parts of buildings and leasehold improvements can be taken under faster depreciation rules (including Section 179). These studies can be utilized retroactively; so if you have done any building or leasehold build-outs in 2014 or before, you should be looking at a cost segregation study. Your CPA can help you with this.

2. Tax Credits. There are a number of tax credits you should be aware of, and it may not be too late to gather the information to take advantage of these. These are credits that specifically apply to the restaurant industry:

A. Tip credit for FICA paid on tip wages. This has been a favorable provision for many years, and it gives the employer an actual tax credit for FICA that is paid on certain amounts paid on tips. It is very easy to calculate; pull the information from your payroll reports. The only problem with this credit is that you lose the deduction for those wages that you take as credit. The good news, though, is that for many years this credit would not offset alternative minimum tax which restaurant owners paid. This credit is something to look at now and can be carried over if you cannot use it. This is a good program.

B. Energy Credits. This credit is for equipment that uses solar power, fuel cells and other alternative energy sources. More and more I am seeing solar panels on the top of QSR restaurants.

C. Welfare-to-work tax credit.

D. **Enterprise zone employment credits** for hiring people in disadvantaged areas.

E. Disability access credits. This gives a small business credit for a portion of its expenditures to make it accessible for the disabled. The credit does reduce a deduction or depreciation allowance for those expenditures, but it still may be a valuable credit.

F. Research and development ("R&D") credit. At times the restaurant industry can generate credit for the incremental R&D expenses over a certain base. This includes putting together new and better equipment or new types of software.

3. Restaurant-Specific Tax Ideas

A. Gift Cards. In many cases, your treatment of gift cards can provide a significant advantage, associates particularly with the rules about when you take the gift card receipts into income from a tax standpoint vs. GAAP and also how you treat the breakage (which are the unredeemed gift cards that will at one point be income). This is something that gives you some flexibility. You can certainly look at that in terms of tax planning for 2014 and going forward.

B. Frequent Diner Programs. Many restaurant companies have frequent-diner programs. In many cases, you have to accrue a good portion of that frequent diner as income, and also there may be some corresponding liability. There may, however, be some opportunity to do different types of reporting as it relates to frequent diner programs.

4. Look at Your Balance Sheet. Carefully review your balance sheet. It is one of the most omitted areas of tax planning. Consider the following actions:

A. Write off obsolete assets.

B. If you have **employee loans** on the books that have not been repaid, you may want to write these loans off as a bad debt.

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C. Look at your **GAAP rent schedule** vs. what rent is actually deductible.

D. Make sure you have **accruals for all expenses** you may have incurred during the year but have not been able to calculate yet (such as percentage rent, common area maintenance expenses, etc.)

5. Prepaid Expenses. Review your prepaid expenses; possibly some of them can be contributed.

6. Inventory. Review your inventory to see if you have any obsolete items.

7. State Taxes. By charging certain management fees and other types of affiliate charges, you can move income from one high-tax state (California) to a low-tax state (like Nevada).

I hope the above tax savings ideas I've given you are of help to you in your 2014 tax preparation.

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