Property Transactions and Tax Avoidance

After reviewing the scenario, ascertain at least three (3) business tax credits that business owners often overlook. Briefly outline a communication plan that the IRS can utilize to communicate such tax credit information to business owners. Provide support for your recommendation.

From e-activity, identify at least three (3) general business tax credits, and describe at least two (2) conditions that could cause a recapture of a general business tax credit. Recommend at least two (2) tax-planning strategies for avoiding or reducing the recapture potential. Provide specific examples of such strategies.

Week 8 e-Activity

Go to the IRS Website and review “Publication 334, Tax Guide for Small Business”, located at <http://www.irs.gov/uac/Publication-334,-Tax-Guide-for-Small-Business-(For-Individuals-Who-Use-Schedule-C-or-C-EZ)>. Be prepared to discuss.

* **ACC 307 Week 8 Scenario Script: Tax Credits & Payments**

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| **Slide #** | **Scene/Interaction** | **Narration** |
| Slide 1 | This is a scene that introduces the setting for the scenario.  It has a shot of the tax firm and a welcome message. There is a button to start labeled “Begin.” |  |
| Slide 2 | Scene 1  Inside the accounting firm, in a conference room.  Wade speaking to Carmen | **Wade**: Hi, Carmen. Good job resolving the issues from last week with Jonathan Dixon.  Determining the outcome of a passive activity can be complicated, but your recommendations were good based upon his personal circumstances.  You were correct in informing him that if a taxpayer actively manages his rental properties, he will be in a better position to demonstrate active and material participation in the activity, Active participative in the rental activity justifies writing off the losses against active and portfolio income, instead of waiting to accumulate future passive income. Otherwise, he will have to suspend losses into the future until the passive activity is sold, which would entitle him to write off the remaining losses against his active income. Another strategy would be to synchronize the passive income and losses to ensure the least amount of suspended carryover as possible.  **Carmen**: Yes, I absolutely agree with you.  **Wade**: All right, Carmen, let’s get started with our work for this week. Our focus will be on **Tax Credits and Payments**.  **Carmen**: Okay, I’m ready. |
| Slide 3 | Scene 2  Wade and Carmen in his office | **Wade**: I told you that Randy Charles might have a slight crush on you. He called to make *another* appointment, this time he wants to begin tax planning for next year. I’ll make the appointment for this afternoon to find out what he needs.  **Carmen:** That sounds great. I’m sure we’ll be able to help him. |
| Slide 4 | Scene 3  Wade, Carmen and Randy Charles in the conference room. | **Wade:** Hi, Randy. Welcome back. I understand that you need advice regarding tax planning for next year. How can we help?  **Randy**: Yes, I do. I want to know how I can utilize more tax deductions to reduce my tax bill.  **Wade**: Well, I’ll take a back seat and you can discuss your concerns with Carmen.  **Carmen**: Hello, Mr. Charles. How can I help you?  **Randy Charles**: Well, since I expect to be self-employed for the entire year and going forward, I would like to begin tax planning for next year to explore potential business tax deductions that would be available to reduce my taxable income.  Can you help me to determine what business deductions are available for self-employed taxpayers? My plan is to hire the most qualified employees to help me succeed, but in order to keep them, I need to be able to offer benefits such as pensions, health care, and possibly daycare. I am also in the process of searching for a building to renovate and I wonder if there is any benefit to renovating property compared to leasing a building.  **Carmen**:We can certainly help you make these decisions. |
| Slide 5 | Scene 4  Interaction Slide  Key Chapter provisions | **Title: Deductions and Losses: Tax Credits and Payments**  **Introduction:** It is important to understand how tax credits and tax deductions work and how they differ from each other. A **tax credit** reduces your tax liability, dollar for dollar, whereas a **tax deduction** reduces the amount of your taxable income, which is used to calculate your tax liability. In general, tax credits can be more valuable because they directly offset the actual taxes you pay.  **Tab 1:** The **general business credit** is made up of several separate business-related credits, each of which is calculated separately using different rules. Unused credits are carried back for one year and then forward for twenty years. The general business credit is available to individuals, estates and trusts, and corporations.  **Tab 2**: Your general business credit for the year consists of any carry forward amounts from prior years plus the total of your current year’s business credits.  **Tab 3:** The general business credit is available for employers who offer employer-provided childcare facilities, health insurance and pension plan, and the work opportunity for disadvantaged workers.  **Tab 4:** There is a **rehabilitation credit** available that applies to costs taxpayers incur for rehabilitation and reconstruction of certain buildings. Rehabilitation includes renovation, restoration, and reconstruction. It does not include enlargement or new construction. Generally, the percentage of costs you can take as a credit is: ten percent for buildings placed in service before 1936 and twenty percent for certified historic structures. |
| Slide 6 | Scene 5  Interaction  From the information provided, which general business credit could Mr. Charles benefit from to reduce his tax liability?  1. The work opportunity credit was established to encourage employers to hire from targeted or economically disadvantaged work groups.  2. There is a small employer pension plan start-up cost credit for administrative costs associated with establishing and maintaining certain qualified retirement plans.  3. There is a credit available for employers who provide for the care of children for employees during normal working hours.  4. Instead of leasing an office building, Mr. Charles could rehabilitate a commercial building or historic structure. | **Carmen**: There are many tax credits available for small businesses bundled within the general business tax credit to reduce the amount of credits that can be used to offset a taxpayer's income tax liability. Unused tax credits can be carried back one year and carried forward for twenty years.  First, Mr. Charles can benefit from the use of the work opportunity credit if he hires employees from a targeted and economically disadvantaged work group. In the first year, the credit is equal to forty percent for the first six thousand dollars. There is even a credit for hiring youth employees for the summer if they are hired for ninety days between May and September.  There is also a credit for small employer pension plans. The credit is available to employers with less than one hundred employees who earn at least five thousand dollars. There is a fifty percent credit allowed for qualified startup costs for maintaining a pension plan and providing retirement-related education costs.  In addition, there is a credit for employer-provided child care, which is limited to one-hundred-fifty-thousand dollars annually which is a combination of qualified child care expenses and child care referral services for employees. The credit can be as high as twenty-five percent.  Finally, taxpayers are allowed a credit for expenditures incurred to rehabilitate industrial and commercial buildings or historic buildings. However, the building must be substantially rehabilitated, which means that expenditures must exceed the adjusted basis of the property before the rehabilitation or five-thousand dollars. Rehabilitation expenses do not include the cost of the building. |
| Slide 7 | Scene 6  Carmen and Wade in Wade's office | **Wade**: Carmen, I agree with your advice to Randy. Let’s provide a summary of the credits that could help reduce his tax liability. |
| Slide 8 | Scene 7  Carmen, Randy Charles, and Wade in the conference room | **Carmen**: Mr. Charles, there are quite a few tax credits that you could benefit from to reduce your taxes.  If you are willing to employ workers from targeted or disadvantaged work groups or summer students, there are work opportunity credits available.  There are also credits available for employer pension plan startup costs and day care provided to employees.  We also recommend that you consider rehabilitating a commercial building instead of leasing, since rehabilitation credits are available. The best part about these credits is that if they are not entirely used in one tax year, then they can be carried forward for twenty years.  **Randy Charles:** Thanks for your recommendations, Carmen. I am really glad that I consulted with you before making the decision to lease the building.  **Carmen**: You’re most welcome! Let me know if there is anything else you need. |
| Slide 9 | Scene 8  Wade in his office | **Wade**:Well, it's approaching the end of the day. We have reviewed several common general business credits that could benefit small employers. I recommend that you continue to review the contents of *Publication Seventeen* to prepare for our next topic next week, which will be **Property Transactions: Determination of Gains or losses, Basis Considerations, and Nontaxable Exchanges**.  By the way, don’t forget to participate in this week’s discussion questions.  I’ll see you next week! |