

Value of Understanding Tax Deductions More Important Now

ACCOUNTING: Tax Impact Of ACA Underestimated for Most Companies in 2013

By EMMET PIERCE

One of the biggest complaints by San Diego business owners as they prepared their 2013 tax returns was about the additional burden created by the Patient Protection and Affordable Care Act, or ACA.

Tax professionals said that in addition to raising taxes, the ACA was highly confusing to many business owners.

"I am not sure they fully anticipated the tax impact," said Richard Evans, managing partner of San Diego office of Squar Milner. "I don't believe there is good understanding at all about the potential for penalties that businesses face."

The net investment income tax added a 3.8 percent tax on dividends, capital gains, interest and other investment income, said Bruce Knowlton, a tax partner at Moss Adams LLP. In addition, the additional medicare tax added a 0.9 percent tax on wage, salary and self-employment income.

These new ACA taxes affect people

whose adjusted gross income exceeds \$200,000 for single people and \$250,000 for couples.

The ACA was designed to make health insurance affordable to low- and moderate-income earners. Companies that have 100 or more full-time workers must begin complying with the mandate to offer affordable health insurance coverage in 2015 or face financial penalties. The government has exempted companies with 50 to 99 full-time workers from compliance until 2016. Smaller companies need not comply.

Complex Regulations

Ronson Shamoun, principal and CEO of the RJS Law tax law firm, said the ACA has complicated federal tax regulations, which already were difficult to understand.

"It's getting worse," he said. "It is more and more additions to the already voluminous tax code. It's not getting any easier."

Even tax advisers sometimes struggle to make sense of expanding federal tax regulations, Squar Milner's Evans said.

"As a tax preparer, it is easy to overlook or not fully understand some of the provisions yourself, unless you really have taken the time to go through and understand," Evans said.

Moss Adams's Knowlton said the additional tax burden makes it imperative that business owners identify and claim all legitimate deductions.

Likewise, his colleague Mark McMahon, a Moss Adams assurance partner, said the middle-market corporations he works with understand the importance of minimizing their tax burdens.

"When they see all this money they are paying out, they are very interested in tax planning and seeing that they are using the right strategies to not pay too much," McMahon said.

Getting Organized

In addition to coping with ACA costs, many businesses had trouble getting their financial documents organized for 2013. When they met with tax consultants, businesses often failed to produce complete records, Shamoun at RJS Law said.

"I see a lot of poor record keeping," Shamoun said. "They don't keep receipts. At the end of the year, I feel they are missing out on a lot of the expenses they could write off. Individuals will take personal items and start using them for business. They will take a home computer and start using it. They forget that a personal item turns into a business item. They can start deducting that item, depreciating that item."

Meanwhile, many business owners are unaware of entertainment deductions, he said.

"A lot of times people will do things to support their business. They will have a barbecue or they will rent a room to entertain. Some people don't realize that is a deductible marketing expense. If they have a holiday party for their staff at their house, they can deduct that as a business expense."

Constant Communication

One way to prepare for the coming tax season is to hire a tax consultant and meet with that person quarterly, if not more frequently, Shamoun said.

"Have that constant communication," he said. "They are helping keep you on track, keeping you organized throughout the year."

A good tax adviser will help you decipher tax laws, which are always changing, he said.

"Minimum wage will be increasing in California, which means increased payroll taxes, increased workers' compensation," he said. "It's constantly changing."



Richard Evans



Ronson Shamoun



Bruce Knowlton

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