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DON'T OVERLOOK THESE CALIFORNIA SMALL BUSINESS TAX BREAKS

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by Riley McDermid with the *San Francisco Business Times*

Interview with Dean Zerbe, former Senior Counsel to the U.S. Senate Finance Committee and alliantgroup National Managing Director

With tax season looming and small businesses just as concerned as ever about how to meet the letter of the law while getting as many credits as possible, the *Business Times* spoke with a tax expert to get some inside tips on making tax season easier.

Dean Zerbe is the National Managing Director of alliantgroup, a nationwide tax services firm, who was also a former Senior Counsel and Tax Counsel for the U.S. Senate Finance Committee.

The *Business Times* asked him for his pro opinion on how small businesses in California could make tax season simpler. Here are the five tips he shared with us.

1. What can small businesses do to make tax season easier?

Congress at the end of last year passed a number of credits and incentives for businesses that were signed into law and are important for small businesses—none more so than section 179 expensing, which was made permanent and also more generous. In short, this provision allows a small business to have an immediate write-off (instead of depreciation over time) of business equipment. For larger businesses, Congress allowed for accelerated depreciation. The fact that the expensing provision and a number of others were made permanent also means that businesses can plan with greater confidence for having an even better tax season next year.

2. What are some of the most common mistakes small businesses make when doing their taxes?

Probably the biggest mistake I see businesses making in doing their taxes is not sharpening their pencils enough to consider their eligibility for credits and incentives. Too often companies

self-censor about what credits and incentives they may qualify for and are basing it on either incorrect or old information. Small-business owners too often bemoan the fact that the big guys are successfully cutting their taxes, but are not willing themselves to sit down with their tax advisers and see how they may be able to reduce their tax bill.

3. What makes California a particularly complex place for small businesses to do their taxes?

From a national perspective, California is certainly not a walk in the park for businesses when it comes to taxes. California's tax rates are significantly higher than in many other states (especially the rates on individuals). California double taxes its S-corporations (albeit at a lower rate), which most states traditionally don't do.

However, business owners need to recognize that while California has high tax rates, it also has some very generous credits and incentives for businesses to lower their taxes. The California R&D Tax Credit (modeled on the federal R&D Tax Credit—more on that below) is one of the most generous in the nation—and we have worked with California companies that are able to significantly reduce their California tax bill thanks to the California R&D Tax Credit.

In addition, there has been a shift for state businesses regarding the change to the EZ program, which is being phased out, to newer incentives such as the California Competes Tax Credit—an income tax credit available to companies that keep and grow their businesses within the state. While the state's tax rates can be a burden for small businesses, there are options available to greatly reduce this burden.

4. What kinds of credits and incentives should they know about but may not be familiar with?

Especially in the San Francisco area, with its host of innovative companies—it amazes me how many companies do not take advantage of the R&D Tax Credit—the biggest tax credit out there for businesses.

The key thing business owners need to realize is that the R&D Tax Credit is not just about basic research but also applied research (and in a broad range of industries). We work with hundreds of companies in Northern California that are doing great work that qualifies for the R&D Tax Credit—everything from wineries in Napa to app developers in Santa Clara—but there are thousands of other companies that can qualify for the R&D Tax Credit—including machine shops, manufacturing, food processing, software, architecture, engineering, etc. If you are making something bigger, better, faster, quicker, cheaper, greener—you should look at the R&D Tax Credit.

In addition, Congress just made the R&D Tax Credit permanent and also expanded it to make it much easier for small businesses to take advantage of the credit (allowing the credit to count against the alternative minimum tax (AMT) as well as making the credit refundable against payroll taxes) thanks to a bipartisan group of senators and members of Congress. So if you don't think your company qualifies for the R&D Tax Credit, think again.

5. Are there any particular standout deductions you think are overlooked?

Another tax deduction that is often overlooked, and is especially relevant for the focus on green technology in the Bay Area, is section 179D (separate from expensing) that provides a tax deduction for the designers of energy-efficient government buildings—think federal, state, local (including schools and state universities). This deduction has been a huge help for architects, engineers and contractors in the San Francisco area working on government buildings, but again, too many business owners don't know about it—and the tax benefits are lost.

There are other credits and incentives available, but my broader point is this—small businesses can only benefit if they actually take the time to explore their options and I would highly recommend they seek out a qualified tax consultant to do so. 



Dean Zerbe is alliantgroup's National Managing Director based in the firm's Washington, D.C. office. Prior to joining alliantgroup, Zerbe was Senior Counsel and Tax Counsel to the U.S. Senate Committee on Finance. He worked closely with then-Chairman of the Finance Committee, Senator Charles Grassley, on tax legislation.

During his tenure on the Finance Committee, Zerbe was intimately involved with nearly every major piece of tax legislation that was signed into law, including the 2001 and 2003 tax reconciliation bills, the JOBS bill in 2004 (corporate tax reform) and the Pension Protection Act. Zerbe is a frequent speaker and author on the outlook for short-term and long-term changes in tax policy, as well as ways accounting firms can help their clients lower their tax bill.