

# Fueling Your Future.



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Business Leaders

**GRAY GRAY & GRAY**<sup>®</sup>  
CERTIFIED PUBLIC ACCOUNTANTS | ADVISORS

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BEYOND THE NUMBERS

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***It takes more than numbers.***

Gray, Gray & Gray is here to help you "Fuel Your Future" by going beyond accounting services. With 70 years in the energy business, we go beyond the numbers by delivering insight, guidance and knowledge to our energy clients so they can achieve growth and profitability.

## Tax Extenders Passed

The holiday season is also the time of year when Congress scrambles to provide temporary year-to-year extensions to several key tax provisions. On December 18, 2015, President Obama signed into law tax extenders that will extend over 50 expired provisions of the tax code, including several key pro-business initiatives. Here are some of the highlights.



Several of the temporary extenders have been made a permanent part of the country's tax code starting in 2016, including:

- A 5-year recognition period for built-in gains (BIG) for S-Corps (more on this important provision below)
- R&D Tax Credit
- Start-up provisions that make the R&D Tax Credit refundable for new businesses
- Alternative Minimum Tax (AMT) turnoff (a boost for small business owners)
- Child Tax Credit
- American Opportunity Tax Credit
- Enhanced Earned Income Tax Credit (EITC)
- Deduction for sales and use tax
- Section 179 expensing for small businesses (more on this provision and the impact to

## Energy Companies below)

Other provisions have been extended for five years (through 2019), including:

- New Markets Tax Credit
- Work Opportunity Tax Credit (WOTC)
- Bonus Depreciation

Most of the remaining extender provisions have been extended for two years, including most of the energy investment provisions, which include a deduction for energy-efficient commercial buildings. In addition, reform provisions are expected to be put in place for Real Estate Investment Trusts (REITs) and captive insurance companies.

Extensions were not the only part of the House bill, as some pending tax changes were delayed. These include a two year delay of the controversial medical device tax, and a two year delay of the "Cadillac tax" on premium health care programs.

Congress also made permanent authorization for owners of IRAs to take tax-free distributions if the funds are used to make a direct gift to charity. The tax-free distributions are for outright (direct) gifts only, not life-income gifts. While no charitable deduction for the IRA distributions is allowed, not paying tax on otherwise taxable income may be seen by some as the equivalent of a charitable deduction.

### Section 179

Internal Revenue Code Section 179 allows a business to immediately expense most fixed asset purchases with certain limits. The Protecting American from Tax Hikes (PATH) of 2015 makes the \$500,000 expensing limit with a total limitation of \$2,000,000 in acquisitions permanent. Both amounts are indexed for inflation beginning in 2016. The bill also treats heating, ventilation and air conditioning units placed in service after 2015 as eligible for expensing. Finally, the bill eliminates the \$250,000 cap with respect to qualified real property beginning in 2016.

### Long-Awaited S Corp Clarification

The long-awaited confirmation of the 5-year built-in gains period for S Corporations provides much needed clarification. Making the 5-year built-in gains (BIG) period permanent is a welcome clarification for S Corps.

Briefly, an S corporation that has been converted from (and was previously taxed as) a C corporation is subject to built-in gains tax (BIG) attributable to the period during which it was a C corporation. Prior to 2009, the BIG tax applied to gains recognized during the first 10 years after the S election was effective. In 2009 and 2010, the effective recognition period for the BIG tax was reduced to seven years. It was temporarily shortened to five years in 2011, but no final resolution was made.

Now that the 5-year period has been made permanent, S Corp owners that have been wary of selling a business or making other significant changes may have a favorable planning opportunity.

For more information on the extenders package and on how the S Corp BIG tax period

may affect your business planning, please contact Gray, Gray & Gray's Tax Department at (781) 407-0300.

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[www.gggcpas.com](http://www.gggcpas.com)



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