Small business tax changes offer valuable planning opportunities.

Highlights

Planning opportunities

- Put tax savings to work by adjusting your quarterly estimated taxes to reflect the pass-through deduction based on your projected earnings. Tax savings can be used for hiring new employees, raising wages, boosting marketing and advertising or buying new equipment.
- Consider strategies to manage or reduce income to avoid phase-outs. Establishing and contributing to a qualified retirement plan or health savings account could reduce income.
- Look for opportunities to adjust the timing of income by deferring invoices or the recognition of capital gains.
- In situations where one spouse has a professional service business subject to income phase-outs, and the other spouse is a high earner, they could consider filing separately. For example, if one spouse earns $100,000 as a consultant and the other spouse earns $350,000 as a business executive, by filing separately, they could keep the consulting income below the $157,000 threshold for the 20 percent deduction.

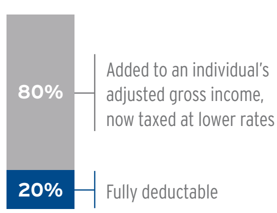
The 2018 tax filing season is upon us and millions of small businesses will be filing their taxes for the first time under the Tax Cuts and Jobs Act. The new law introduced significant changes for small businesses, with several opportunities to reduce their tax bill. It's an opportune time to refresh your knowledge on the major changes to the tax code so you can begin planning and take appropriate planning steps in 2019.

Pass-through deduction

The centerpiece of the new tax provisions is the pass-through deduction, which applies to more than 90 percent of small businesses that are organized as pass-throughs, such as sole proprietors, partnerships, LLCs and S-corporations. The straightforward deduction allows business owners of qualified small businesses to deduct 20 percent of their share of the business's income. For example, a sole proprietor generating $250,000 of net business income would be able to deduct $50,000 off his business income. The remaining $200,000 is added to his adjusted gross income (AGI) to be taxed at individual tax rates, which were lowered under the new tax law. The deduction is allowed for the first $315,000 of net business income for joint filers.

Benefits of the pass-through deduction: an example

Total annual business net income up to $315,000 (joint filers)



The exceptions for the pass-through deduction are service-based businesses in certain categories, such as law, consulting, health, financial services, and athletics, which are subject to phase-out rules.

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- With some forward planning, businesses can use deductions to offset profits. For example, if you're expecting a larger profit next year, you could consider delaying a big purchase.
- In many years, a well-planned Section 179 or bonus depreciation deduction can enable your business to retain cash to be reinvested in the business.
- The tax savings can be applied to future purchases, which could generate additional tax savings for reinvestment the following year.

Ways to use larger and more immediate expensing approaches.

Section 179 deduction

You can now purchase qualifying equipment and property (not including real estate) and immediately expense up to $1 million per purchase. That's up from $520,000. The deduction is phased out on purchases over a $2.5 million spending cap. The Section 179 deduction is now available on most types of equipment, including depreciable tangible property used in connection with lodging, and improvements to non-residential real property.

Double bonus depreciation

The bonus depreciation doubles the immediate, first-year deduction on qualifying equipment from 5% to 100%. The deduction, which was due to expire in 2018 has been extended through 2026 (phase-out begins in 2023) and is now available on both new and used purchases.

Qualifying property can include personal property that is used over 50% of the time for business. With the new tax law, computers are no longer considered listed property, which means they can be used less than 50% of the time for business.

Using expensing to plan for 2019

With a full year of the tax changes now in place, business owners should begin to gain a better feel for the available planning opportunities. Now would be an opportune time to schedule time with your accountant to fully explore how you can take advantage of the changes to grow your business in 2019 and beyond.

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