ZOOK DINON PA
CERTIFIED PUBLIC ACCOUNTANTS & CONSULTANTS

Year-end Planning Moves for Small Businesses

Establish a Tax-favored Retirement Plan: If your business doesn't already have a retirement plan, now might be the time to take the plunge. Current retirement plan rules allow for significant deductible contributions. For example, if you are self-employed and set up a SEP-IRA, you can contribute up to 20% of your self-employment earnings, with a maximum contribution of $55,000 for 2018. If you are employed by your own corporation, up to 25% of your salary can be contributed with a maximum contribution of $55,000.

Other small business retirement plan options include the 401(k) plan (which can be set up for just one person), the defined benefit pension plan, and the SIMPLE-IRA. Depending on your circumstances, these other types of plans may allow bigger deductible contributions.

The deadline for setting up a SEP-IRA for a sole proprietorship and making the initial deductible contribution for the 2018 tax year is 10/15/19 if you extend your 2018 return to that date. Other types of plans generally must be established by 12/31/18 if you want to make a deductible contribution for the 2018 tax year, but the deadline for the contribution itself is the extended due date of your 2018 return. However, to make a SIMPLE-IRA contribution for 2018, you must have set up the plan by October 1. So, you might have to wait until next year if the SIMPLE-IRA option is appealing.

Contact us for more information on small business retirement plan alternatives, and be aware that if your business has employees, you may have to cover them too.

Take Advantage of Liberalized Depreciation Tax Breaks: Thanks to the TCJA, 100% first-year bonus depreciation is available for qualified new and used property that is acquired and placed in service in calendar year 2018. That means your business might be able to write off the entire cost of some or all of your 2018 asset additions on this year's return. So, consider making additional acquisitions between now and year-end. Contact us for details on the 100% bonus depreciation break and what types of assets qualify.

<u>Claim 100% Bonus Depreciation for Heavy SUVs, Pickups, or Vans.</u> The 100% bonus depreciation provision can have a hugely beneficial impact on first-year depreciation deductions for new and used heavy vehicles used over 50% for business. That's because heavy SUVs, pickups, and vans are treated for tax purposes as transportation equipment that qualifies for 100% bonus depreciation. However, 100% bonus depreciation is only available when the SUV, pickup, or van has a manufacturer's Gross Vehicle Weight Rating (GVWR) above 6,000 pounds. The GVWR of a vehicle can be verified by looking at the manufacturer's label, which is usually found on the inside edge of the driver's side door where the door hinges meet the frame. If you are considering buying an eligible vehicle, doing so and placing it in service before the end of this tax year could deliver a juicy write-off on this year's return.

<u>Claim Bigger First-year Depreciation Deductions for Cars, Light Trucks, and Light Vans.</u> For both new and used passenger vehicles (meaning cars and light trucks and vans) that are acquired and placed in service in 2018 and used over 50% for business, the TCJA dramatically increased the so-called *luxury auto depreciation limitations*. For passenger vehicles that are acquired and placed in service in 2018, the luxury auto depreciation limits are as follows:

- $18,000 for Year 1 if bonus depreciation is claimed.
- $16,000 for Year 2.
- $9,600 for Year 3.
- $5,760 for Year 4 and thereafter until the vehicle is fully depreciated.

These allowances are much more generous than under prior law. Note that the $18,000 first-year luxury auto depreciation limit only applies to vehicles that cost $58,000 or more. Vehicles that cost less are depreciated over six tax years using depreciation percentages based on their cost. Contact us for details.

Cash in on More Generous Section 179 Deduction Rules: For qualifying property placed in service in tax years beginning in 2018, the TCJA increased the maximum Section 179 deduction to $1 million (up from $510,000 for tax years beginning in 2017). The Section 179 deduction phase-out threshold amount was increased to $2.5 million (up from $2.03 million). The following additional beneficial changes were also made by the TCJA.

Property Used for Lodging. For property placed in service in tax years beginning in 2018 and beyond, the TCJA removed the prior-law provision that disallowed Section 179 deductions for personal property used predominately to furnish lodging or in connection with the furnishing of lodging. Examples of such property would apparently include furniture, kitchen appliances, lawn mowers, and other equipment used in the living quarters of a lodging facility or in connection with a lodging facility such as a hotel, motel, apartment house, dormitory, or other facility where sleeping accommodations are provided and rented out.

Qualifying Real Property. As under prior law, Section 179 deductions can be claimed for qualifying real property expenditures, up to the maximum annual Section 179 deduction allowance ($1 million for tax years beginning in 2018). There is no separate limit for qualifying real property expenditures, so Section 179 deductions claimed for real property reduce the maximum annual allowance dollar for dollar. *Qualifying real property* means any improvement to an interior portion of a nonresidential building that is placed in service after the date the building is first placed in service, except for expenditures attributable to the enlargement of the building, any elevator or escalator, or the building's internal structural framework.

For tax years beginning in 2018 and beyond, the TCJA expanded the definition of real property eligible for the Section 179 deduction to include qualified expenditures for roofs, HVAC equipment, fire protection and alarm systems, and security systems for nonresidential real property. To qualify, these items must be placed in service in tax years beginning after 2017 and after the nonresidential building has been placed in service.

Time Business Income and Deductions for Tax Savings: If you conduct your business using a pass-through entity (sole proprietorship, S corporation, LLC, or partnership), your shares of the business's income and deductions are passed through to you and taxed at your personal rates. Assuming the current tax rules will still apply in 2019, next year's individual federal income tax rate brackets will be the same as this year's (with modest bumps for inflation). In that case, the traditional strategy of deferring income into next year while accelerating deductible expenditures into this year makes sense if you expect to be in the same or lower tax bracket next year. Deferring income and accelerating deductions will, at a minimum, postpone part of your tax bill from 2018 until 2019.

On the other hand, if you expect to be in a higher tax bracket in 2019, take the opposite approach. Accelerate income into this year (if possible) and postpone deductible expenditures until 2019. That way, more income will be taxed at this year's lower rate instead of next year's higher rate. Contact us for more information on timing strategies.

ZOOK DINON PA
CERTIFIED PUBLIC ACCOUNTANTS & CONSULTANTS

Maximize the New Deduction for Pass-through Business Income: The new deduction based on Qualified Business Income (QBI) from pass-through entities was a key element of the TCJA. For tax years beginning in 2018–2025, the deduction can be up to 20% of a pass-through entity owner's QBI, subject to restrictions that can apply at higher income levels and another restriction based on the owner's taxable income. The QBI deduction also can be claimed for up to 20% of income from qualified REIT dividends and 20% of qualified income from publicly-traded partnerships.

For QBI deduction purposes, pass-through entities are defined as sole proprietorships, single-member LLCs that are treated as sole proprietorships for tax purposes, partnerships, LLCs that are treated as partnerships for tax purposes, and S corporations. The QBI deduction is only available to noncorporate taxpayers (individuals, trusts, and estates).

Because of the various limitations on the QBI deduction, tax planning moves (or nonmoves) can have the side effect of increasing or decreasing your allowable QBI deduction. So, individuals who can benefit from the deduction must be really careful at year-end tax planning time. We can help you put together strategies that give you the best overall tax results for the year.

Claim 100% Gain Exclusion for Qualified Small Business Stock: There is a 100% federal income tax gain exclusion privilege for eligible sales of Qualified Small Business Corporation (QSBC) stock that was acquired after 9/27/10. QSBC shares must be held for more than five years to be eligible for the gain exclusion break. Contact us if you think you own stock that could qualify.