2018 Year-End Tax Planning for Businesses

Dear Clients and Friends,

As 2018 draws to a close, there is still time to reduce your 2018 tax bill and plan ahead for 2019. This letter highlights several potential tax-saving opportunities for you to consider. We would be happy to meet with you to discuss specific strategies.

Year-end planning for 2018 takes place against the backdrop of a new tax law – the Tax Cuts and Jobs Act – that made sweeping changes in the tax rules for individuals and businesses. For businesses, the corporate tax rate is cut to 21%, the corporate AMT is gone, there are new limits on business interest deductions, and there are significantly liberalized expensing and depreciation rules. In addition, there's a new deduction for non-corporate taxpayers with qualified business income from pass-through entities.

Year-End Tax-Planning Moves for Businesses & Business Owners

• For tax years beginning after 2017, taxpayers other than corporations may be entitled to a deduction of up to 20% of their qualified business income. For 2018, if taxable income exceeds $315,000 for a married couple filing jointly, or $157,500 for all other taxpayers, the deduction may be limited based on whether the taxpayer is engaged in a service-type trade or business (such as law, accounting, health, or consulting), the amount of W-2 wages paid by the trade or business, and/or the unadjusted basis of qualified property (such as machinery and equipment) held by the trade or business. The limitations are phased in for joint filers with taxable income between $315,000 and $415,000 and for all other taxpayers with taxable income between $157,500 and $207,500.

Taxpayers may be able to achieve significant savings by deferring income or accelerating deductions so as to come under the dollar thresholds (or be subject to a smaller phase-out of the deduction) for 2018. Depending on their business model, taxpayers also may be able increase the new deduction by increasing W-2 wages before year-end. The rules are quite complex, so don't make a move in this area without consulting your tax advisor.

• More "small businesses" are able to use the cash (as opposed to accrual) method of accounting in 2018 and later years than were allowed to do so in earlier years. To qualify as a "small business" a taxpayer must, among other things, satisfy a gross receipts test. Effective for tax years beginning after Dec. 31, 2017, the gross-receipts test is satisfied if, during a three-year testing period, average annual gross receipts don't exceed $25 million (the dollar amount used to be $5 million). Cash method taxpayers may find it a lot easier to shift income, for example by holding off billings till next year or by accelerating expenses, for example, paying bills early or by making certain prepayments.

• Businesses should consider making expenditures that qualify for the liberalized business property expensing option. For tax years beginning in 2018, the expensing limit is $1,000,000, and the investment ceiling limit is $2,500,000. Expensing is generally available for most depreciable property (other than buildings) and off-the-shelf computer software. For property placed in service in tax years beginning after Dec. 31, 2017, expensing also is available for qualified improvement property (generally, any interior improvement to a building's interior, but not for enlargement of a building, elevators or escalators, or the internal structural framework), for roofs, and for HVAC, fire protection, alarm, and security systems. The generous dollar ceilings that apply this year mean that many small and medium sized businesses that make timely purchases will be able to currently deduct most if not all of their outlays for machinery and equipment. What's more, the expensing deduction is not prorated for the time that the asset is in service during the year. The fact that the expensing deduction may be claimed in full (if you are otherwise eligible to take it) regardless of how long the property is held during the year can be a potent tool for year-end tax planning. Thus, property acquired and placed in service in the last days of 2018, rather than at the beginning of 2019, can result in a full expensing deduction for 2018.

• Businesses also can claim a 100% bonus first year depreciation deduction for machinery and equipment—bought used (with some exceptions) or new—if purchased and placed in service in 2018. The 100% write-off is permitted without any proration due to the length of time that an asset is in service during the tax year. As a result, the 100% bonus first-year write-off is available even if qualifying assets are in service for only a few days in 2018.

• A corporation (other than a “large” corporation) that anticipates a small net operating loss (NOL) for 2018 (and substantial net income in 2019) may find it worthwhile to accelerate just enough of its 2019 income (or to defer just enough of its 2018 deductions) to create a small amount of net income for 2018. This will permit the corporation to base its 2019 estimated tax installments on the relatively small amount of income shown on its 2018 return, rather than having to pay estimated taxes based on 100% of its much larger 2019 taxable income.

• To reduce 2018 taxable income, consider deferring a debt-cancellation event until 2019.

• To reduce 2018 taxable income, consider disposing of a passive activity in 2018 if doing so will allow you to deduct suspended passive activity losses.

These are just some of the year-end steps that can be taken to save taxes. Again, by contacting us, we can tailor a particular plan that will work best for you. The professionals at Friedman, Leavitt & Assoc., Inc. would be happy to meet with you at your convenience to discuss the strategies outlined above. While we are getting very close to the end of the year, there is still time to implement these strategies to minimize your 2018 tax liability.

Thank you for your business. We have appreciated the opportunity to serve you in the past and we welcome the opportunity to serve you in the coming year. We would appreciate your referrals. If you know someone in need of our services, please mention our name to them. We are a growing firm and we would like more good clients like you.

We, at Friedman, Leavitt and Associates wish you all a good holiday season and a healthy, happy and rewarding new year.

Sincerely,

Friedman, Leavitt & Assoc., Inc.