



Year-End Tax Planning Moves For Businesses & Business Owners

Source: Thomson Reuters

We have compiled a checklist of actions based on current tax rules that may help you save tax dollars if you act before year-end. Not all actions will apply in your particular situation, but you (or a family member) will likely benefit from many of them. We can narrow down the specific actions that you can take once we meet with you to tailor a particular plan. In the meantime, please review the following list and contact us at your earliest convenience so that we can advise you on which tax-saving moves to make:

- ◆ 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 phaseout of the deduction) for 2018. Depending on their business model, taxpayers also may be able to 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 adviser.
- ◆ 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 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



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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 this year. The 100% writeoff is permitted without any proration based on the length of time that an asset is in service during the tax year. As a result, the 100% bonus first-year writeoff is available even if qualifying assets are in service for only a few days in 2018.
- ◆ Businesses may be able to take advantage of the de minimis safe harbor election (also known as the book-tax conformity election) to expense the costs of lower-cost assets and materials and supplies, assuming the costs don't have to be capitalized under the Code Sec. 263A uniform capitalization (UNICAP) rules. To qualify for the election, the cost of a unit of property can't exceed \$5,000 if the taxpayer has an applicable financial statement (AFS; e.g., a certified audited financial statement along with an independent CPA's report). If there's no AFS, the cost of a unit of property can't exceed \$2,500. Where the UNICAP rules aren't an issue, consider purchasing such qualifying items before the end of **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.