



2019 Year-End Planning for Businesses

Following the 2017 Tax Cuts and Jobs Act (TCJA), C corporations enjoy a flat 21% statutory tax rate and pass-through entities may qualify to receive the Qualified Business Income Deduction at the individual level. However, planning for 2019 year-end and ahead for 2020 is imperative to maximize your potential tax-saving opportunities.

Fraudulent activity remains a significant threat.

Our firm takes security very seriously and your business should as well. Fraudsters continue to refine their techniques and tax identity theft remains a significant concern. Beware if you:

- Receive a notice or letter from the Internal Revenue Service (IRS) regarding a tax return, tax bill or income that doesn't apply to you
- Get an unsolicited email or another form of communication asking for confidential information such as payroll or employee data
- Receive a robocall insisting you must call back and settle your tax bill

Make sure you're taking steps to keep financial information safe. Let us know if you have any questions or concerns about how to go about this.

Qualified Business Income (QBI) Deduction

Under §199A, individual taxpayers with qualified business income from a pass-through entity (partnership, S corporation, LLC, or single-member LLC) or a sole proprietorship may be entitled to a 2019 deduction equal to the lesser of the deductible amount of QBI (generally 20% subject to the W-2 wage limitation) or 20% of taxable income. Deductions may also be allowed for 20% of qualified REIT dividends and qualified publicly traded partnership income. Special rules apply for these additional items. The deduction applies to reduce taxable income and is available whether or not the taxpayer itemizes. The deduction does not impact the calculation of self-employment tax. If taxable income does not exceed a threshold of \$321,400 (joint filers), or \$167,700 (all other taxpayers), the deduction is generally the lesser of 20% of QBI or 20% of taxable income. If taxable income exceeds the threshold then the W-2 wage limitation applies and specified service trades or businesses are excluded. Both of these rules phase-in for taxpayers with taxable income exceeding the threshold amount by \$100,000 for joint filers and \$50,000 for all other filers. Calculation of the deduction is a fact intensive inquiry. If a taxpayer claims the deduction and understates the amount of tax required to be shown on their return by 5% or more, they could be subject to the substantial understatement of tax penalty.

Limitation on Business Interest

The deduction for net interest expenses incurred by a business is limited to the sum of business interest income, 30% of the business's adjusted taxable income, and floor plan financing interest, though businesses with average annual gross receipts of \$25 million or less are exempt from the limit.

Excess Business Loss Limitations

Taxpayers other than C corporations are not allowed to deduct excess business loss. An excess business loss for the tax year is the amount by which aggregate deductions of the taxpayer attributable to trade or businesses of the taxpayer over the sum of aggregate gross income, exceeds \$510,000 (for married taxpayers filing jointly) or \$255,000 (for all other taxpayers). Any excess business loss is carried forward and treated as part of the taxpayer's net operating loss carryforward (discussed below) in succeeding taxable years. Pass-through entities are limited in deducting active business losses against non-business income.

Depreciation and §179 Election to Expense Equipment Purchases

Businesses may depreciate equipment purchases or make a "§179 election," which allows the taxpayer to expense (i.e., currently deduct) otherwise depreciable business property. Certain improvements to nonresidential real property (roofs, heating, ventilation, and air-conditioning property, fire protection, and alarm/security systems) are eligible under §179. For 2019, the allowable deduction is \$1,020,000 with a phase-out beginning with total asset purchases over \$2,550,000.

Vehicles Weighing over 6,000 Pounds: A popular strategy is to purchase a vehicle for business purposes that exceeds the depreciation limits set by statute (i.e., a vehicle rated over 6,000 pounds). Doing so would not subject the purchase to the statutory dollar limit for depreciation: \$10,100 for 2019; \$10,100 in the case of vans and trucks (if bonus depreciation is taken, the 2019 amounts increase to \$18,100 for cars, vans, and trucks). Therefore, the vehicle would qualify for the full equipment expensing dollar amount. However, for SUVs (rated between 6,000 and 14,000 pounds gross vehicle weight) the expensing amount is limited to \$25,000.

Bonus Depreciation

Property placed in service in 2019, including used property, may be eligible for a 100% bonus depreciation deduction (separate from §179 expensing). Taxpayers engaged in a business may want to consider accelerating the timing to place assets in service, or the decision to purchase assets for use in the business, in order to take advantage of this deduction.

Each state has their own rules on conformity to bonus depreciation and §179. For example, South Carolina does not allow bonus depreciation but does conform to the Federal §179 deduction and limitations. Thus, using electing bonus depreciation on an asset placed in service may result in a state adjustment to taxable income.

Capitalization vs. Expensing for Materials, Supplies, and Repairs

In general, a taxpayer may deduct amounts paid for repairs and maintenance to tangible property if the amounts paid are not otherwise required to be capitalized. Taxpayers must generally capitalize the aggregate of amounts paid to improve a unit of property. Expenditures are nondeductible improvements if they:

1. Are for a betterment to the property;
2. Adapt the property to new or different use; or
3. Restore the property to its original condition.

A taxpayer may elect de minimis safe harbor, allowing deduction of property and improvements with a unit cost of \$2,500 or less. Otherwise, these items would be capitalized and depreciated over their useful life.

Business Travel, Meals, and Entertainment Expenses

Although significantly limited, business deductions for meal and entertainment expenses are still available in certain circumstances. Entertainment expenses are generally disallowed. Taxpayers may still be able to deduct 50% of food and beverage expenses associated with operating their trade or business (e.g., meals consumed by employees on work travel). The TCJA expanded the 50% limitation to expenses of the employer associated with providing food and beverages to employees through an eating facility that meets the requirements for de minimis fringes and for the convenience of the employer. Office holiday parties or events may still qualify for the 100% deduction.

Because §274(d) prohibits the estimation of expenses, the taxpayer must “substantiate by adequate records or by sufficient evidence corroborating [his] own statement” all expenditures for travel, entertainment, and meals (as well as expenses for gifts) in order to claim any deduction for these expenses. To deduct expenses incurred for meals and entertainment, the taxpayer must record:

1. The amount and a description (e.g., “dinner”) of each separate expenditure;
2. The time and place the entertainment or meal was provided;
3. The business purpose of the activity, including a description of any business benefit derived or expected, and the nature of any business discussion with the person entertained; and
4. The business relationship to the person(s) entertained, which may be indicated by reference to name, title, occupation, or other designation sufficient to establish a relationship.

Charitable Contributions

A charitable contribution deduction is available to businesses. A corporation is generally allowed to deduct charitable contributions up to 10% of its taxable income. Contributions by pass-through entities are allocated to individual equity interest holders and are subject to the individual’s limitations. Certain contributions of property are subject to additional limits as well as additional recordkeeping and substantiation requirements. Depending on individual situations, sponsorships creating advertising exposure for your business may provide a better tax benefit than contributions.

Home Office Deduction

Expenses attributable to using the home office as a business office are deductible if the home office is used regularly and exclusively:

1. As a taxpayer's principal place of business for any trade or business;
2. As a place where patients, clients, or customers regularly meet or deal with the taxpayer in the normal course of business; or
3. In the case of a separate structure not attached to the residence, in connection with a trade or business.

If a taxpayer uses part of the home as a business office, determining the amount of any deduction available can be tricky, but an IRS-provided safe harbor could be used to minimize audit risk. The deduction is not available for employees.

Self-Employed Health Insurance Premiums

Self-employed individuals are allowed to claim 100% of the amount paid during the taxable year for insurance that constitutes medical care for themselves, their spouses, and their dependents as an above-the-line deduction on their individual return, without regard to the general medical expense limitation of 10% of AGI floor. Self-employed health insurance includes eligible long-term health care premiums.

Net Operating Loss (NOL) Carryforward

If the taxpayer expects to suffer a net operating loss for 2019, it may generally carry forward those losses against taxable income. There is no time limit on the carry forward period. However, an NOL carryover can only offset 80% of taxable income (without regard to the §199A deduction). NOLs arising in 2019 cannot be carried back except by farming and non-life insurance companies (which can be carried back two years).

Are There Business Deductions that Can Be Accelerated into The Current Year (Accrual basis taxpayer)?

Bad Debts:

Business accounts receivable should be analyzed and those receivables that are totally or partially worthless should be written off. By identifying specific bad debts, the taxpayer should be entitled to a deduction. The taxpayer may be able to complete this process after year's end if the write-off is reflected in year-end financial statements. For non-business bad debts (such as uncollectible loans), the debts must be wholly worthless to be deductible, and will probably only be deductible as a capital loss.

Current-Year Bonuses:

In general, a taxpayer's liability for employee bonuses accrues and is deductible for the current year even though the bonus is paid in the following year, if all the events are satisfied that fix the liability and the taxpayer does not have a unilateral right to cancel the bonus at any time prior to payment. Generally, the taxpayer may accelerate the bonus deduction into the current year while the employees will report the income in the following year if they are cash method taxpayers. Furthermore, any compensation arrangement that defers payment will be currently deductible only if paid within 2½ months after the employer's year-end.

Retirement Plan Options:

Self-employed IRA:

Plan must be established and funded by due date of the return including extensions. Maximum contribution is the lesser of 20% of net income or \$56,000 for owner and 25% of wages or \$56,000 for employees.

Section 401(K) :

Plan must be established by the end of the calendar year and employer contributions may be made up until the due of the return including extensions. The §401(k) elective deferral limit is \$19,000 for 2019. If the taxpayer's §401(k) plan has been amended to allow for catch-up contributions for 2019 and the taxpayer reaches age 50 by December 31, 2019, an additional \$6,000 may be contributed to the §401(k) account, for a total maximum contribution of \$25,000 (\$19,000 in regular contributions plus \$6,000 in catch-up contributions).

SIMPLE Plan Contribution:

Plan must be established by October 31 of tax year and requires contributions by employer. The SIMPLE plan deferral limit is \$13,000 for 2019. If the taxpayer's SIMPLE plan has been amended to allow for catch-up contributions for 2019 and the taxpayer will be 50 years old by December 31, 2019, an additional \$3,000 may be contributed.

Credits Available to the Taxpayer

There are several Federal and state credits available for the taxpayer to consider:

1. **New Markets Tax Credit:** For 2019, taxpayers may claim a new markets tax credit equal to 39% of any capital invested in a qualified community development entity. The credit is claimed in seven annual installments beginning in the year of the original investment.
2. **Rehabilitation Tax Credit:** Qualified expenses incurred in the rehabilitation of certified historic structures are eligible for a credit of 20% of such expenses. The credit is claimed in five equal annual installments beginning with the year in which the rehabilitated property is placed in service.
3. **Energy Investment Credit:** The energy investment credit is available for investments in certain alternative and renewable energy property and renewable electricity production facilities.
4. **Research and Development (R&D) Tax Credit:** Some business projects, such as those involving development of new or more reliable products, processes, or techniques, may be eligible for R&D tax credit.
5. **Employer Wage Credit for Employees in the Uniformed Services:** Some employers continue to pay all or a portion of the wages of employee who are called to active service. The amount of the credit is equal to 20% of the first \$20,000 of differential wage payments to each employee for the taxable year.
6. **Work Opportunity Credit:** This credit is an incentive provided to employers who hire individuals in groups whose members historically have had difficulty obtaining employment, giving a business an expanded opportunity to employ new works and to be eligible for a tax credit based on the wages paid.

Gifting Interests in a Closely Held Family Business

Owners of closely held business may want to consider gifting an interest in the business (corporate stock or interests in family limited partnerships or LLCs). A taxpayer may take advantage of valuation discounts (marketability and minority discounts) and the 2019 gift tax exclusion of \$15,000 per donee (\$30,000 for married couples splitting gifts) when gifting family business interests before year end.

Contact Us

Please call our office at 843-972-3767 to discuss your potential tax-savings opportunities. We are happy to assist you to ensure that your goals continue to be met.