

2018 Year-End Tax Planning Strategies for **BUSINESSES**

Jeffers and Company Inc.

Julie Jeffers, IAR

317-837-7720

Julie@jeffersco.net

www.TaxServicesIndianapolis.co

Questions & Strategies Unique to You

- Everyone's business, corporate entity type and tax situation is unique to them.
- These strategies may not apply in certain entity types or business environments.
- **Please contact our office** for questions & assistance with implementing these & other year-end planning strategies to ensure suitability to your particular situation.

YEAR-END BUSINESS TAX PLANNING STRATEGIES for 2018

- Deferring Income
- Purchase New Business Equipment
- Small Business Health Care Tax Credit
- Business Energy Investment Tax Credits
- Repair Regulations
- Qualified Business Income Deduction
- Depreciation Limitations on Luxury, Passenger Automobiles and Heavy Vehicles
- Retirement Plans
- Dividend Planning

Deferring Income

- Businesses using the cash method of accounting can defer income into 2019 by delaying end-of-year invoices, so payment is not received until 2019.
- Businesses using the accrual method can defer income by postponing delivery of goods or services until January 2019.

Purchase New Business Equipment

- Section 179 Expensing
- Bonus Depreciation
- Qualified Property
- Consider the Timing
 - The Half-Year Convention
 - The Mid-Quarter Convention
 - The Mid-Month Convention

Purchase New Business Equipment

Section 179 Expensing

- Business should take advantage of Section 179 expensing this year for a couple of reasons.
- First, is that in 2018 businesses can elect to expense (deduct immediately) the entire cost of most new equipment up to a maximum of \$1 million for the first \$2.5 million of property placed in service by December 31, 2018.

Purchase New Business Equipment

Section 179 Expensing (cont)

- Keep in mind that the Section 179 deduction cannot exceed net taxable business income.
- The deduction is phased out dollar for dollar on amounts exceeding the \$2.5 million threshold and eliminated above amounts exceeding \$3.5 million.

Purchase New Business Equipment

Bonus Depreciation

- Businesses are allowed to immediately deduct 100% of the cost of eligible property placed in service after September 27, 2017, and before January 1, 2023, after which it will be phased downward over a four-year period:
 - 80% in 2023,
 - 60% in 2024,
 - 40% in 2025, and
 - 20% in 2026.

Purchase New Business Equipment

Qualified Property

- Qualified property is defined as property that you placed in service during the tax year and used predominantly (more than 50 percent) in your trade or business.
- Property that is placed in service & then disposed of in that same tax year does not qualify,
- Nor does property converted to personal use in the same tax year it is acquired.

Purchase New Business Equipment Conventions – Consider the Timing

- The tax rules for depreciation include "conventions" or rules for figuring out how many months of depreciation you can claim.
- There are 3 types of conventions.
- To select the correct convention, you must know the **type** of property and **when** you placed the property in service.

Purchase New Business Equipment Conventions – Consider the Timing

- **The Half-Year Convention:** This convention applies to all property except residential rental property, nonresidential real property, and railroad gradings and tunnel bores (see mid-month convention below) unless the mid-quarter convention applies.
- All property that you begin using during the year is treated as "placed in service" (or "disposed of") at the midpoint of the year.
- This means that no matter when you begin using (or dispose of) the property, you treat it as if you began using it in the middle of the year.

Purchase New Business Equipment Conventions – Consider the Timing

- **The Mid-Quarter Convention:** The mid-quarter convention must be used if the cost of equipment placed in service during the last three months of the tax year is more than 40 percent of the total cost of all property placed in service for the entire year.
- If the mid-quarter convention applies, the half-year rule does not apply, **and** you treat all equipment placed in service during the year as if it were placed in service at the midpoint of the quarter in which you began using it.

Purchase New Business Equipment Conventions – Consider the Timing

- **The Mid-Month Convention:** This convention applies only to residential rental property, nonresidential real property, & railroad gradings & tunnel bores.
- It treats all property placed in service (or disposed of) during any month as placed in service (or disposed of) on the midpoint of that month.

Purchase New Business Equipment Conventions – Consider the Timing

- If you're planning on buying equipment for your business, call the office and speak with us (a tax professional) so we can help you figure out the **best time to buy** that equipment and take full advantage of these tax rules.

Small Business Health Care Tax Credit

- Small business employers with **25 or fewer** FTE (full-time-equivalent) employees with average annual wages of \$50,000 indexed for inflation (e.g., \$52,400 in 2017) may qualify for a tax credit to help pay for employees' health insurance.
- The credit is 50 percent (35 percent for non-profits).

Business Energy Investment Tax Credits

- Business energy investment tax credits are still available for eligible systems placed in service on or before December 31, 2022, and businesses that want to take advantage of these tax credits can still do so.
- Includes geothermal electric, large wind, and solar energy systems used to generate electricity, to heat or cool (or to provide hot water for use in) a structure, or to provide solar process heat.

Repair Regulations

- Where possible, end of year repairs and expenses should be deducted immediately, rather than capitalized and depreciated.
- Small businesses lacking applicable financial statements (AFS) are able to take advantage of de minimis safe harbor by electing to deduct smaller purchases (\$2,500 or less per purchase or per invoice).

Repair Regulations (cont)

- Businesses with applicable financial statements are able to deduct \$5,000.
- Small business with gross receipts of **\$10 million or less** can also take advantage of safe harbor for repairs, maintenance, and improvements to eligible buildings.
- Please call if you would like more information on this topic.

Qualified Business Income Deduction

- Under the Tax Cuts and Jobs Act non-corporations) may be entitled to a deduction of up to 20 percent of their qualified business income
- (QBI) from a qualified trade or business for tax years 2018 through 2025. To take advantage of the deduction, taxable income must be under \$157,500 (\$315,000 for joint returns).

Qualified Business Income Deduction

- The **QBI is complex**, and tax planning strategies can directly affect the amount of deduction, i.e., increase or reduce the dollar amount.
- As such it is especially important to speak with a tax professional before year's end to determine the best way to maximize the deduction.

Depreciation Limitations on Luxury, Passenger Automobiles and Heavy Vehicles

- The new law changed depreciation limits for luxury passenger vehicles placed in service after December 31, 2017.
- If the taxpayer doesn't claim bonus depreciation, the maximum allowable depreciation deduction is \$10,000 for the first year.

Depreciation Limitations on Luxury, Passenger Automobiles and Heavy Vehicles (cont)

- For passenger autos eligible for the additional bonus first-year depreciation, the maximum first-year depreciation allowance remains at \$8,000.
- It applies to new and used ("new to you") vehicles acquired and placed in service after September 27, 2017, and remains in effect for tax years through December 31, 2022.
- When combined with the increased depreciation allowance above, the deduction amounts to as much as \$18,000.

Depreciation Limitations on Luxury, Passenger Automobiles and Heavy Vehicles (cont)

- Under tax reform, heavy vehicles including pickup trucks, vans, and SUVs whose gross vehicle weight rating (GVWR) is **more than 6,000 pounds** are treated as transportation equipment instead of passenger vehicles.
- As such, heavy vehicles (new or used) placed into service after September 27, 2017, and before January 1, 2023, qualify for a 100 percent first-year bonus depreciation deduction as well.

Retirement Plans

- Self-employed individuals who have not yet done so should set up **self-employed retirement plans** **before** the end of 2018.
- Call today if you need help setting up a retirement plan.

Dividend Planning

- Reduce accumulated corporate profits and earnings by issuing corporate dividends to shareholders.

2018 Year-End Planning SUMMARY

- These are just a few of the steps you might take.
- Everyone's individual, family, business, corp. entity type & tax situation is unique to them.
- These strategies may not apply in certain individual or family situations, entity types or business environments.
- **Please contact our office** for questions & assistance with implementing these & other year-end planning strategies to ensure suitability to your particular situation.

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