

Business 2018 Tax Season Tax Letter

New tax changes for the upcoming 2018 tax year

The Tax Cuts and Jobs Act (TCJA or the Act) made many significant changes to Business related taxes. Below is a list of some of the changes in the 2018 tax code (TCJA) that could impact your business. This is only a partial list of tax changes. There could be additional tax changes not addressed in this tax letter, please call our office regarding any specific changes or impact to your business specifically*.

C Corporation tax rate change: The corporate rate lowered to a flat 21%.

All business entities

Cash basis: Entities that qualify for cash basis, expensing of inventory and not required to capitalize indirect inventory cost under section 263(a) have been liberalized.

Entertainment: Elimination of deductions for certain entertainment expenses. On site meals provided by employers now only 50% deductible. Travel meals and client entertainment meals have been retained at 50% until further guidance from the US Treasury.

Like Kind Exchanges: Repeal of the like-kind exchange rules, except for real property.

Research and Development: Retention of the research and development credit along with a requirement that research expenditures paid or incurred after Dec. 31, 2021, be capitalized and amortized over 5 years or 15 years if incurred outside of the United States

International taxation: Moved to a Territorial system of taxation for corporations. A one-time repatriation tax on corporate earnings held overseas, applying different rates to liquid assets and illiquid assets.

Tax planning tools for businesses

Don't let tax considerations get in the way of sound business decisions. For example, the negative impact of these strategies on your cash flow might not be worth the potential tax benefit.

Business structure: There are different options in the type of entity that your business might operate as. Sole proprietorship, C Corporation, S Corporation, partnership, LLC. Please call me to discuss what form of entity might be best for you.

S Corporation: Electing to be taxed as an S Corporation can potentially save you on paying social security and Medicare taxes.

Staff lunches: Account for staff lunches as staff meetings as opposed to entertainment. Staff lunches are now subject to the 50% limitation.

Accelerating Deductions into 2018: If you expect your taxable income and or tax bracket to be lower in 2019 as compared to 2018, you might consider accelerating deductions to 2018

Deferring Income into 2019: If you expect your taxable income and or tax bracket to be lower in 2019 as compared to 2018, you might consider deferring income to 2019.

Disabled / handicap improvements: ADA compliant improvements can qualify for special tax treatment including a credit. Please let me know if you had any ADA compliant improvements in the current tax year.

Employment of family members: Your spouse and children can only be paid if they work in your business. They can be paid the on-going rate for a similar employee. They can also participate in your pension plan.

2% S Corporation health insurance premiums: Health and accident insurance premiums paid on behalf of a greater than 2-percent S corporation shareholder-employee are deductible by the S corporation and (required to be) reportable as wages on the shareholder-employee's Form W-2, subject to income tax withholding. *It's important that you are in compliance with the (ACA) - Obama Care rules. If you have any questions, please reach to us or your payroll company, health insurance agent or attorney to ensure that you are.*

Home office: Call me to discuss requirements for a home office deduction.

Foreign Bank Account: If you have an interest in a foreign bank account, it must be disclosed; failure to do so carries stiff penalties. You must file a Report of Foreign Bank and Financial Accounts (FBAR) if: (1) you are a U.S. resident or a person doing business in the United States; (2) you had one or more aggregated financial accounts exceeding \$10,000 during the calendar year; (3) the financial account was in a foreign country; and (4) you had a financial interest in the account or signatory or other authority over the foreign financial account. If you are unclear about the requirements or think they could possibly apply to you, please reach out to me.

A new deadline for filing the FBAR became effective for the tax year 2017. The new due date has been moved up and it is now due April 15. However, a six-month automatic extension is available. If an individual is living (abroad) out of the country, the due date is automatically extended until June 15, with an additional four-month extension available until October 15.

Filing Deadlines for Forms W-2, W-3, and Form 1099-MISC: The filing deadline for 2018 forms W-2 to employees and to the Social Security Administration (SSA) is January 31, 2019. The January 31 deadline also applies to Forms W-2AS, W-2GU, W-2VI, W-3 and W-3SS.

If you are filing any Forms 1099-MISC and reporting an amount in Box 7, Nonemployee Compensation, the deadline for filing these forms is also January 31, 2019.

Increased Penalties for Failure to Timely File Certain Information Returns: Increased higher penalties apply for (1) the failure to file correct Forms W-2 by the due date; (2) the intentional disregard of filing requirements; (3) the failure to furnish Forms W-2; and (4) the intentional disregard of payee statement requirements. In addition to applying to Forms W-2, W-3, and 1099-MISC, other common forms subject to these increased penalties include: Schedules K-1 for Forms 1041, 1065, and 1120S.

Penalties for the late filing of information returns have also increased.

Section 179 Expense Deduction and Bonus Depreciation: Code Sec. 179 expense deduction and bonus depreciation are two large potential deductions for small to medium size businesses. For 2018, the maximum amount of qualifying property that your business can expense under section 179 is \$1,000,000. That amount is reduced one-for-one to the extent qualifying property purchased exceeds \$2,500,000.

Bonus depreciation deduction has been increased from 50% to 100% for 2018 and now also includes the purchase of used property

Increase in De Minimis Repair Amounts That May Be Expensed: Under a safe harbor rule in the recent repair and capitalization rules that took effect in 2014, certain amounts that a business pays for tangible property acquired or produced during the tax year may be deducted, rather than capitalized, provided certain requirements are met and the cost of the property does not exceed a de minimis amount. Effective for 2017, the IRS de minimis amount that is deductible by such businesses is \$2,500.

The \$2,500 threshold requires substantiation by an invoice for the underlying qualifying purchase(s). If your business does want to take advantage of the increase in the de minimis limitation, an election must be made, and the business's accounting procedures may need to be modified. Your business should have a current written accounting policy supporting / defining the de minimis \$2,500 threshold. We can assist in creating the appropriate de minimis accounting policy for your company.

Section 199A deduction: In general, pass through entities, for the tax year effective 2018 for a qualified trade or business might be eligible for a 20% deduction of their calculated qualified business income. Section 199A is complex and has many exceptions and limitations. Therefore, each business has to be analyzed based on facts and circumstances.

Vehicle Deductions: Purchasing your vehicle in your business and tax deductions for vehicle business related expenses should be looked at by all businesses. The IRS has strict substantiation requirements necessary for business vehicle deductions. You need to ensure that your business records include the following information with respect to each vehicle used in your business: (1) the amount and date of each separate expense with respect to the vehicle (Cost of purchase or lease and repairs and maintenance); (2) the mileage for each business or investment use / trip and the total miles for each tax period; and (3) the business purpose for each trip / expenditure. The following records can be used to assist in substantiating your business vehicle expenses: (1) records such as a diary, log, statement of expense, or trip sheets; and (2) support such as receipts, cancelled checks, bills, or similar evidence.

There are new phone apps that are available to assist a business in tracking / documenting vehicle expenses. Business vehicle mileage and expenses are required to be kept / recorded on a timely basis (near the time of the trip or expense).

Have your company reimbursement yourself for all business expenses that you paid personally by using cash or personal credit cards by 12/31/18. This also includes potential reimbursements for any business vehicle expenses that you personally paid out of pocket for.

Other business tax considerations

Change in Tax Return and Extension Due Dates for C Corporations and Partnerships: In general, C corporations with tax years ending in 2018 now have an extra month to file their federal income tax returns. Such returns are due by the 15th day of the fourth month following the close of the tax year. A special rule exempts C corporation with fiscal years ending on June 30 from this change until tax years beginning after December 31, 2025. Thus, the filing deadline for such corporations remains September 15 until 2026.

Partnerships with tax years ending in 2018 are now required to file their federal income tax returns by the 15th day of the third month following the close of the tax year, rather than the 15th day of the fourth month following the close of the tax year. Thus, 2018 calendar-year partnership federal income tax returns are due March 15, 2019. The filing deadline for S corporation returns remains unchanged, meaning that partnerships and S corporations will now have the same tax return due dates.

Along with the changes in tax return deadlines, many of the automatic extension periods have also changed.

S Corporation Salaries: For all S corporations, it's important for all shareholders working in your business to be paid an amount that is commensurate with their workload. Distributing profits, in the form of distributions, in lieu of paying wages subject to employment taxes, is a high target item with the IRS. Failing to be in compliance with this requirement can lead to tax deficiencies, penalties and interest.

Review of partnership agreements, stockholder buy sell agreements, Trust agreements, Corporate minutes: You should be reviewing your applicable legal agreements on an annual basis and touching base with your attorney to make sure that such agreements are current and up to date. Including your annual corporate minutes.

Review of all of your insurance coverage / policies: Is your liability and property insurance coverage proper and current? Does it cover employees that might get in an automobile accident while driving for your business / office tasks? Reach out and review with your insurance agent / company annually.

Secretary of State annual filing: For information please visit: <http://www.sos.ca.gov/business-programs/business-entities/statements>

If Incorporated in California. Do not forget to file the appropriate Secretary of State return and pay the underlying \$25 fee. There is a \$250 late filing penalty with the risk of the suspension of your Corporation for non-compliance. California LLC's have a similar reporting and fee requirement. If you are incorporated in another state than California, please review their requirements.

Planning for Revised Partnership Audit Procedures: Effective for partnership tax years beginning January 1, 2017, the current partnership audit procedures will be replaced with a single centralized audit system. While some small business partnerships may elect out of the new regime, most partnerships will be subject to the new rules. Under the new audit system, the IRS will examine a partnership's items of income, gain, loss, deduction, credit and partners' distributive shares for a particular tax year of the partnership (i.e., the audit year). Any adjustments are now to be taken into account by the partnership, and not the individual partners, in the year that the audit or any judicial review is completed. Thus, it's possible for current year partners to be liable for mistakes or errors committed in prior years when they were not partners. The new rules provide certain exceptions that can allow current year partners to escape such liability, including an election that must be made no later than 45 days after the date of a notice of final partnership adjustment. We recommend that your partnership agreements should be reviewed and revised to take into account the new audit rules, and that is best done sooner rather than later.

If you have any questions, please feel free to reach out to our office.

2019 is going to be a great year!

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