COZBY & COMPANY

Making

DOLLARS & SENSE

www.cozbycpa.com

YEAR END TAX CONSIDERATIONS
DEC. 2018
BUSINESSES

Cozby & Company Year End Tax Planning Considerations for Businesses

Tax Cuts and Jobs Act (TCJA)

The TCJA was signed into law at the end of 2017

The IRS has been working throughout 2018 on this major piece of tax legislation, issuing proposed regulations, notices, memos, FAQs and more to help businesses make sense of all the changes. Check out the IRS's Businesses tax reform page for updates and resources on how these changes affect your business.

New laws and regulations could have an impact on how you manage your business or tax planning. Below is a summary of important developments you should be aware of:

The Domestic Production Activity Deduction (DPAD) was repealed for tax years beginning after Dec. 31, 2017.

Entertainment expenses are no longer deductible. You may continue to deduct 50% of the cost of business meals if you (or your employee) are present at the event and the food or beverages aren't considered lavish or extravagant.

You can claim a larger 100% first-year depreciation deduction on qualified property (new or used). The new law increased the maximum deduction from $500,000 to $1 million. It also increased the phase-out threshold from $2 million to $2.5 million.

The carryback of net operating losses (NOLs) is repealed effective for tax years ending after Dec. 31, 2017; NOLs can now be carried forward indefinitely. In addition, NOLs generated after 2017 cannot reduce taxable income by more than 80%.

We're here to help you navigate the changes and ensure you receive the most favorable tax treatment. Please see the tax planning sections for more detailed explanations of these changes and other planning ideas.

Reminder for new tax return due dates

Due dates changed for partnerships, C corporations and several other business returns last year. For calendar-year S corporations and partnerships, the filing date is March 15 and is April 15 for C corporations. The date for fiscal year C corporations is the 15th of the fourth month following the end of the corporation's calendar year. State returns are continuing to adopt new due dates in response to the changes.

W2 and 1099 forms are required to be mailed to recipients and filed with government agencies by January 31st. Please contact our office by January 15th to assist you with the timely preparation of these forms.

The Affordable Care Act and your taxes

The TCJA repealed the individual shared responsibility payment (the penalty that the ACA imposes on individuals who do not have health insurance) beginning in 2019. However, other aspects of the Affordable Care Act still are in place.

Corporate alternative minimum tax (AMT)

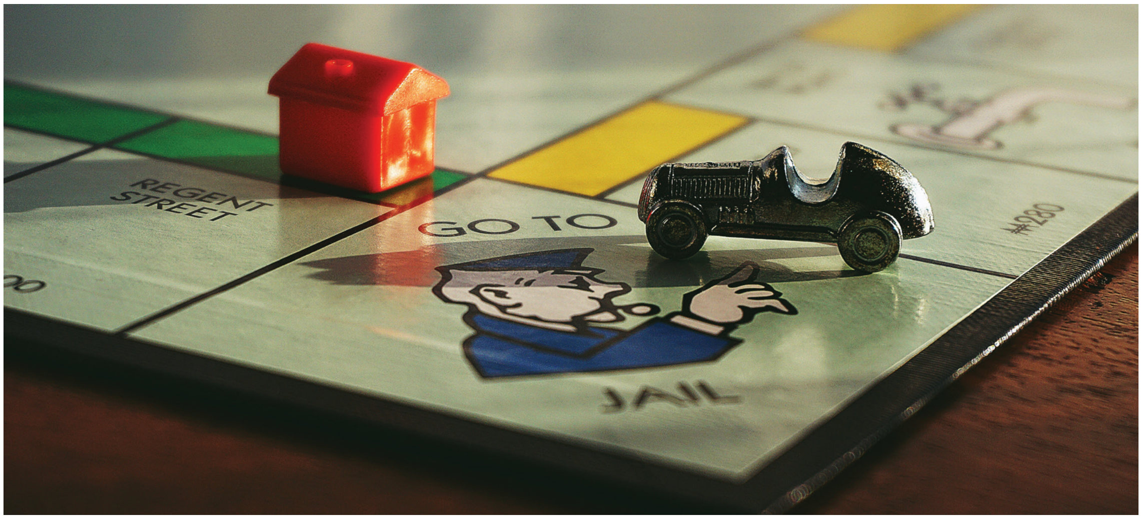
The corporate AMT is repealed effective for tax years beginning after Dec. 31, 2017

Don't get assessed unnecessary IRS penalties for underpayment of estimated taxes

The IRS charges penalties (and interest) if you don't pay the appropriate amount of taxes throughout the year. We can help you calculate your projected income and required quarterly payments. Contact our office so we can help you make the required payments before the end of the year to avoid penalties and surprises come filing season.

Wayfair

On June 21, 2018, the U.S. Supreme Court handed down a historic decision in the sales and use tax nexus case South Dakota v. Wayfair, Inc. The 5–4 ruling overturns physical presence standards upheld in previous cases, such as Quill Corp. v. North Dakota (1992) and National Bellas Hess Inc. v. Department of Revenue of Illinois (1967), where a business had to have a physical presence in a state for that jurisdiction to impose sales and use tax collection obligations on the business. The Court's decision in Wayfair will affect companies that have an economic presence in a state if that presence meets that state's nexus standard under the Court's new ruling. If you'd like to discuss the impact of the case on your business, please call our office today.



Tax identity theft isn't a game

Our firm takes security very seriously. We want to begin with a reminder that tax identity theft is a growing problem. With fraudsters becoming much more sophisticated and large breaches happening so frequently — such as the 2017 Equifax incident, which affected 143 million American consumers — tax identity theft remains a concern. Unfortunately, it can take many forms, so beware if you:

- Receive a notice or letter from the Internal Revenue Service regarding a tax return, tax bill or income that doesn't apply to you — It's possible someone has filed a false return using your employer identification information or Social Security number to claim a refund or get a job.
- Get an unsolicited email or another form of communication asking for either your personal financial details or business information such as payroll or employee data — The IRS doesn't contact taxpayers using email, text or social media channels, so it's likely a scammer is trying to steal your confidential information.
- Receive a robocall insisting you must call back and settle your tax bill — The IRS doesn't initiate contact by phone (they do so by mail), demand immediate payment over the phone, threaten to arrest you or demand your credit or debit card number or that you use a certain payment method — such as a gift card — to pay your taxes.
- If you receive any suspicious communications from the IRS, report the contact by filling out the IRS Impersonation Scam Reporting form or calling 800.366.4484. We also urge you to contact our office for advice whenever you receive any communication from the IRS or believe you might be a victim of identity theft.

Make sure you're taking steps to keep your personal financial information safe. Check out the IRS Identity Protection Tips on how to protect yourself from identity theft. Also, filing your return early can sometimes help prevent tax refund fraud. Contact us so we can help you gather your tax information to file as early as possible.

Year End

Tax Planning Considerations For Businesses & Business Owners

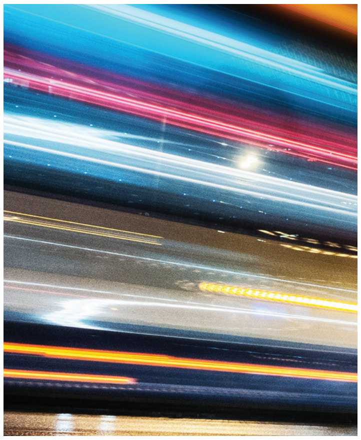
1 For tax years beginning after 2017, taxpayers other than corporations may be entitled to a deduction of up to 20% of their qualified business income. For 2018, if taxable income exceeds $315,000 for a married couple filing jointly, or $157,500 for all other taxpayers, the deduction may be limited based 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.

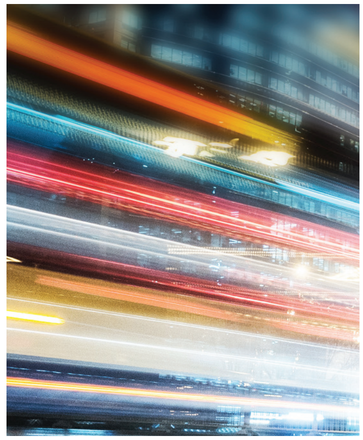
2 Taxpayers may be able to achieve significant savings by deferring income or accelerating deductions so as to come under the dollar thresholds (or be subject to a smaller phaseout of the deduction) for 2018. Depending on their business model, taxpayers also may be able increase the new deduction by 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.

3 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.

4 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 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.

5 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% write-off 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 write-off is available even if qualifying assets are in service for only a few days in 2018.





6 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.

7 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.

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

9 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.

It's never too early to make your tax appointment. Please call Cozby & Company to schedule your work for the coming season.

COZBY & COMPANY

CORPORATE OFFICE:

124 Long Pond Road
Suite 12
Plymouth, MA 02360
Office: (508) 830-0007
Fax: (508) 830-0099

AT THE PINEHILLS:

One Village Green
North
Suite 122
Plymouth, MA 02360
Office: (508) 830-0007
Fax: (508) 830-0099

ONLINE

info@cozbycpa.com
www.cozbycpa.com