2018 Year-End Tax Planning for Businesses

Dear Valued Client:

As year-end approaches, each business should consider the many opportunities that might be lost if year-end tax planning is not explored. A business may want to consider several general strategies, such as use of traditional timing techniques for delaying income recognition and accelerating deductions. A business should also consider customized strategies tailored to its particular situations.

For the 2018 tax year, taxpayers have relative clarity with respect to available credits and deductions. With the exception of a handful of industry specific tax credits and deductions that expired at the end of 2017, most temporary credits and deductions were permanently extended several years ago. A few others were extended for 5-years through 2019.

Several years' worth of promises of impending tax reform finally resulted in the Tax Cuts and Jobs Act (TCJA). The act made several high-profile changes to the tax code, notably reducing tax rates for businesses and individuals, but also created new tax benefits and made several other business-friendly tax benefits even friendlier.

The last few months of the year provide an important "last chance" to change the final course of your businesses tax year before it closes for good. Among the reasons why year-end tax planning toward the end of 2018 may be particularly fruitful are the following:

Business credits and deductions. Many business-related tax credits and deductions that were periodically scheduled to expire were permanently extended in 2015. Others were twice extended one year for both 2016 and 2017 and are not available for the 2018 filing season unless extender legislation is enacted. A few were extended for a five-year period. Some others were modified and extended by TCJA. Taking inventory of what deductions and credits your business has been using and whether they remain available or will be removed in the near future can significantly impact your bottom line. Many of the provisions now periodically extended relate to energy-related activities, or specific industries, but it is important to make sure that any credits are considered in light of their availability.

Depreciation and expensing. TCJA made some significant changes to encourage business to expand and invest in new property. First-year depreciation allowances on certain business property, or bonus depreciation, has fluctuated over the last few years, but TCJA provides for 100 percent bonus depreciation for property placed in service before 2023. Additionally, the limitation on expensing certain depreciable assets has been increased to $1 million, with a $2.5 million investment limitation. While 2018 is not necessarily the last time these benefits will be available, there has been no better time than 2018 to take advantage of them

Qualified business income deduction. Beginning in 2018, business owners to deduct up to 20 percent of their qualified business income (QBI) from sole proprietorships, partnerships, trusts and S corporations. This is one of the centerpieces of TCJA, and broadly applies to many taxpayers.

The IRS has released comprehensive guidance on the deduction, which provides a great deal of clarification on the requirements of the deduction. This is a completely new deduction, with new documentation requirements, which may require a year-end review of records.

Cash method of accounting. Another provision arising from TCJA was a more permissive adoption of the cash method of accounting. Beginning in 2018, corporations with gross receipts up to $25 million can use the method, which is up from $1 million in prior years. Many of the traditional end-of-year planning techniques relating to timing, such as income deferral or income acceleration, are made easier where the cash method of accounting is used.

Family Leave Credit. TCJA also created a new credit for employers making family leave payments to employees. The credit is only available to employers who have a written policy in place for the payment and credit. The IRS has issued guidance allowing the credit to be claimed for all of 2018 by employers who have a written policy in place before the end of 2018. Employers who make these payments, and want to claim the credit still have time to create the policy.

Employee benefits. TCJA made a large number of changes on the individual side relating to benefits that could impact employers. Employees can no longer claim miscellaneous itemized deductions, cannot generally exclude moving expense reimbursements, and the deduction for business meals and entertainment was also impacted. Employers should review their internal policies to determine if they need to be changed to reflect the changes

Affordable Care Act. Despite Congressional attempts to repeal the Affordable Care Act (ACA), the basic structure of the ACA for businesses, both large and small, generally remains intact. If an employer is an applicable large employer (ALE) based on the previous year's employee headcount, employer shared responsibility provisions and employer information reporting provisions are triggered. Small businesses, however, are not unaffected by the ACA and should take the ACA into account in year-end planning. Some incentives in the ACA could help maximize tax savings for small businesses. Planning now, both to qualify for 2018 incentives and to meet 2019 compliance requirements, is advisable.

These are just some of the considerations that can yield tax savings for your business as year-end 2018 approaches. Please feel free to contact our offices so we can discuss specific 2018 year-end strategies that might be particularly worthwhile for your business.

Sincerely,

Hickman & Hickman, PLLC