DEMARCO WACHTER & CO.
Certified Public Accountants
403 West 10th Street
Erie, PA 16502-1302
Telephone (814) 454-6317
Fax (814) 454-5421

DALE R. DEMARCO
RICHARD F. WACHTER
STEPHEN J. BARR
JAMES E. BARR

GEORGE F. WACHTER (2011)
DONALD R. ADAMS (2015)
DOUGLAS J. YEAGER (1981)

2019 Year-End Tax Planning- Businesses

Dear 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 many 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.

Clarity is a new concept for federal taxes, as 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 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 2019 is not necessarily the last time these benefits will be available, there has been no better time than 2019 to take advantage of them.

Qualified business income deduction. Beginning in 2018, business owners can 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 cash 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 2019 approaches. Please feel free to contact our office so we can discuss specific 2019 year-end strategies that might be particularly worthwhile for your business.

Sincerely,

DeMarco Wachter & Co

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