Tax Cuts & Jobs Act

for businesses

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Learn more about the tax law

The Tax Cuts and Jobs Act (TCJA) has brought on major tax law change that impacts small businesses. The TCJA enhances some tax breaks, repeals others and modifies several deductions that are likely to affect a majority of business owners. Here's what you need to know for 2019 and beyond.

- **Corporate tax rate:** C Corporation tax is a flat 21 percent rate, changed from a multi-bracket structure with a 35 percent top rate.

- **Section 179 expensing:** The TCJA raises deduction limits to enable expensing of up to $1.2 million of business property purchases for 2019. And the phaseout threshold increases to $2.55 million. Property can be new or used equipment, as long as it's placed in service for the first time for your business. In addition, Section 179 may now be used on expenses related to improvements to non-residential real estate. This includes roofs, heating and ventilation, air-conditioning, fire protection, and alarm and security systems.

  Start using the purchased property in 2019 to qualify for the deduction this year, as qualified assets must be placed in service. And remember, the maximum is still limited to your taxable business income for the year.

- **First-year bonus depreciation:** The TCJA allows first-year bonus depreciation of 100 percent of the value of assets purchased (both new and used qualifying property) and placed in service within the next five years. This deduction will be reduced starting 2023.

First-year depreciation deduction

2018-2022	100%
2023	80%
2024	60%
2025	40%
2026	20%

Luxury cars: 2019 increases the annual luxury car depreciation limit to $10,100 in the first year and $16,100 in the second year.

Depreciation reminder: These tax law updates only change the timing of your expense, not the overall deduction.

Entertainment and meals: Businesses can no longer deduct 50 percent of the cost of entertainment, amusement or recreation directly related to their trade or business. However, business meal expenses are still 50 percent deductible.

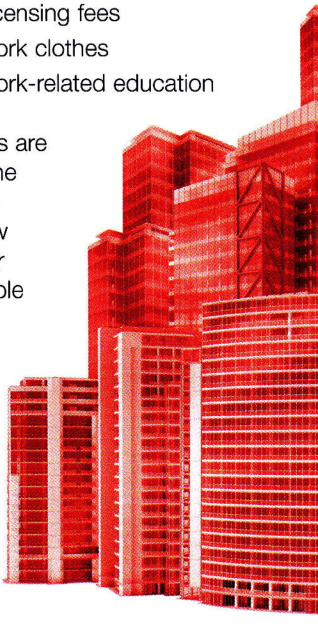
As an employer, you can deduct 50 percent of the costs of a cafeteria or similar eating facility for employees on the premises, as opposed to the 100 percent deduction previously allowed (but only through 2025). This fringe benefit remains 100 percent tax-free to the employees.

Transportation and commuting: Employers can no longer deduct the cost of qualified employee transportation fringe benefits unless it's necessary for the safety of the employee.

Miscellaneous items (employee unreimbursed expenses): The deduction for unreimbursed employee expenses is among the qualified 2 percent miscellaneous itemized deductions that are eliminated. This means employees can no longer expense:

- Work-related meals
- Entertainment
- Gifts
- Lodging
- Professional dues
- Supplies
- Tools
- Licensing fees
- Work clothes
- Work-related education

Business credits: Many credits are modified in the TCJA, such as the orphan drug credit, rehabilitation credit and research credit. A new credit for employer-paid family or medical leave is also now available for qualified employees.



■ **New income tax withholding tables:** The IRS has updated income tax withholding tables that employers must use to update their payroll systems. Employees can check using the withholding tool on the IRS website to see if their withholding amounts are correct.

■ **Other important tax info for 2019:**

GONE – ***Corporate alternative minimum tax (AMT)***
The 20 percent corporate AMT applied to businesses remains repealed.

ENHANCED – ***Cash-method accounting***
Businesses with less than $25 million in gross receipts over the last three years may adopt cash-method accounting.

MODIFIED – ***International taxation***
Treatment of international income moves to the territorial system standard, in which foreign businesses are generally only taxed in the place in which they operate. The new law allows tax deductions for certain foreign-sourced dividends, reduced tax rates for foreign intangible income, and reduced tax rates for repatriation of deferred foreign income.

Qualified business deduction: The TCJA creates a new 20 percent qualified business deduction for pass-through entities such as S corporations, partnerships and sole proprietorships. Here are some of the most important factors:

- This deduction is subject to a handful of restrictions. One restriction phases out the deduction for owners of many service businesses* that have taxable income exceeding $160,700 for single filers and $321,400 for joint filers in 2019.
- Taxpayers with taxable income above those thresholds will see a reduced deduction, subject to special wage and capital limits.
- Losses will lower your eligible income. Excess losses will carry over to future years, limiting your ability to take the deduction in the future.
- Qualified capital property must be tangible property subject to depreciation and available for use in a qualified trade or business.
- Rental property owners may also benefit from the deduction.
- Calculating the actual deduction can be tricky. It depends upon many factors, including your level of income, profession and the amount your business spends on wages and property acquired during the year.
- The domestic production activities deduction (DPAD) was repealed in the TCJA for 2018 and subsequent tax years.

Planning tip: *If you're an owner of a specified service business and your pass-through income is above the thresholds, try to make income adjustments. This may mean trying to defer income at the end of the year. Remember, this deduction phases out above the thresholds and may also be limited by your wages and capital asset values.*

* Most service businesses are included. These include, but are not limited to, health service providers, veterinarians, legal, accounting, performing arts and consultants. *See IRS publication 535.*

TCJA checklist

Use this TCJA topics list as a reminder of items on your tax return that may affect business tax deductions, credits, exemptions and other items that were part of past tax filings. This will help you determine what you need to pay attention to in 2019 and beyond. If you'd like to discuss these tax changes, give us a call.

- ☐ **Section 179 expensing**
- ☐ **First-year bonus depreciation**
- ☐ **Luxury car**
- ☐ **Transportation fringe benefits**
- ☐ **Entertainment and meals**
- ☐ **Business credits**
- ☐ **Corporate AMT**
- ☐ **Corporate tax rate**
- ☐ **Cash-method accounting**
- ☐ **International taxation**

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