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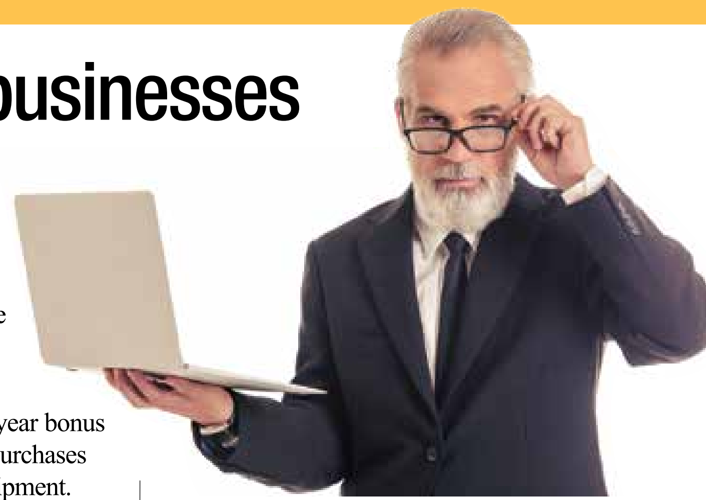
Tax & Business letter

SPRING 2018

5 big tax changes for small businesses



While there are big changes in the Tax Cuts and Jobs Act (TCJA) for major corporations, smaller businesses weren't left out of the mix. Your business may be able to cash in on several enhanced tax breaks, while others have been repealed or scaled back. Take a look at what's changed as you plan for the year ahead:

New deduction for pass-through entities

The new law creates a brand-new deduction for businesses taxed as pass-through entities, like partnerships, S corporations and sole proprietors. Essentially, owners are entitled to deduct 20 percent of qualified business income, subject to several complex restrictions.

One such restriction phases out the deduction for owners of service businesses, except for architects and engineers, whose taxable income is more than an annual limit. The threshold is $157,500 for single filers and $315,000 for joint filers in 2018.

Section 179 deductions

Previously, Section 179 allowed a business to deduct or "expense" up to $500,000 of qualified property placed in service during the year (subject to a capital investment phaseout at $2 million). While that provided plenty of leeway for many small businesses, the TCJA change goes even further.

It doubles the maximum Section 179 allowance to $1 million and hikes the phaseout threshold to $2.5 million. Make sure you start using the purchased property in 2018 to qualify. Just remember, the maximum is still limited to your taxable business income for the year.

Depreciation deductions

The new law also beefs up first-year bonus depreciation to 100 percent for purchases of items like machinery and equipment. This tax break now also applies to used items – not just new ones – as long as you place them in service for the first time for your business. After 2022, allowable bonus depreciation is then lowered incrementally over the next four years.

Besides the bonus depreciation increase, the TCJA hikes depreciation deductions for "luxury cars" used for business driving. If you're in the market for a new business car, understanding this new rule should be part of your buying process.

Entertainment and meals

The new law eliminates entertainment deductions that are directly related to or associated with your business. So you get no tax benefit for treating customers to a good time after completing a business deal. However, the 50 percent deduction for business meals while traveling on business remains.

If your company has a cafeteria or similar eating facility for employees on the premises, you can deduct 50 percent of the costs (but only through 2025), as opposed to the 100 percent deduction previously allowed. Even with the cutback, it may be worth the convenience of having employees eat lunch onsite. This fringe benefit remains 100 percent tax-free to the employees.

Business deductions and credits

Several business credits are maintained but modified by the new law, including the orphan drug credit, the rehabilitation credit and the research credit. This is in addition to the creation of a new credit for employer-paid family or medical leave. The TCJA also repeals certain deductions, including the ones for domestic production activities and qualified transportation fringe benefits.

But that's not all. The TCJA includes a host of other provisions affecting small businesses, ranging from net operating losses (NOLs) to like-kind exchanges and net interest expenses.

Schedule a meeting with us and we'll help you understand how the tax changes impact your business. ♦

IRS TAX NOTES

Find out your refund status

You can check the status of your 2017 tax refund at www.irs.gov/refunds. All you need is your Social Security number or Individual Taxpayer Identification Number (ITIN), filing status and exact refund amount.

The IRS usually issues refunds in less than three weeks from the date of your online submission, or six weeks from receiving your mailed-in return. However, some refunds require more time. Tax returns requesting refunds that use either the Earned Income Tax Credit or the Additional Child Tax Credit will be held until after Feb. 15.

Businesses: Look out for tax return fraud

The IRS saw a big increase in fraudulent business tax returns throughout 2017. This includes corporations, partnerships, and estate and trust returns (Forms 1120, 1120S, 1065, 1041 and Schedule K-1).

Fraud signs include rejected filing extensions resulting from employer identification and Social Security numbers already on file, and unexpected tax transcript receipts or IRS notices that don't correspond to anything you've submitted.

First-quarter interest rates unchanged

Interest rates for the first quarter in 2018 have not changed since last quarter. These rates include: 4 percent for overpayments (3 percent for corporations), 1.5 percent for the portion of a corporate overpayment over $10,000, 4 percent for underpayments and 6 percent for large corporation underpayments.

Track your amended tax return

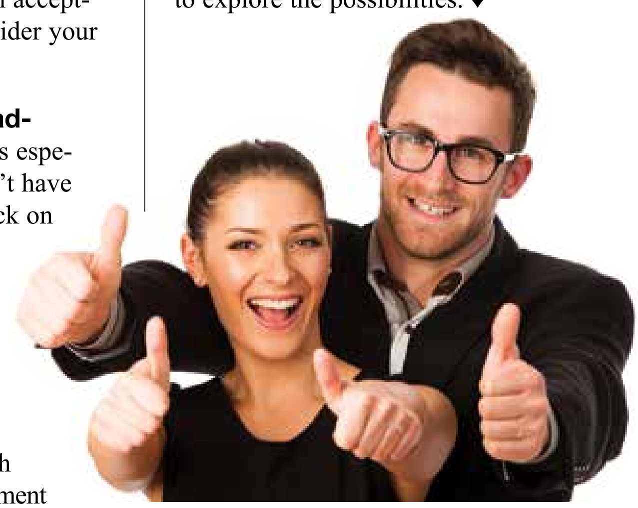
Check the status of your amended 2017 tax return using the amended return status tool on the IRS website. As a reminder, your amended return can take up to three weeks after you mail it to appear in the IRS system, and up to 16 weeks to process the return. ♦

Going into business with your spouse? Ask these questions

Starting and running a business is usually not a simple process. Doing so with your spouse creates another layer of complexity. Whether the experience will be positive or negative depends on several factors. Here are some of the questions you need to discuss before going into business with your spouse:

- **Do you work well together at home?** If you cooperate and collaborate on domestic chores, you'll probably carry that pattern into your workplace. If you bicker constantly over how to do the laundry or maintain the yard, you'll probably clash over balance sheets and cash flow, too.
- **How do you handle differences of opinion?** Even if you work well together, disagreements are inevitable. The answer to this question is particularly relevant if you'll have employees or customers on the premises. At a minimum, disruptive quarrels could contaminate a peaceful business environment.
- **Do you both have similar goals?** For example, one partner's determination to maximize income may not be compatible with the other's goal of job satisfaction. If the two of you have major differences, it's important to recognize them and either arrive at an acceptable compromise or reconsider your proposed venture.
- **Will your business be adequately funded?** This is especially important if you don't have an outside salary to fall back on during hard times.
- **Will there be other people?** Each spouse's role and responsibilities with respect to coworkers and subordinates should be clearly defined. Spouses with drastically different management styles can make life uncomfortable for employees, other partners and each other.
- **Will one of you be supervising the other?** You'll need to concentrate on treating one another with respect, especially when giving or taking constructive criticism. Conversely, continually overlooking your spouse's mistakes or failings may drag down the morale of other employees or otherwise harm your business.
- **Are your strengths complementary?** For example, if you're both in the same field, you may leave functions such as marketing and accounting to employees or outside services so you can work together within your area of expertise. If you find your professional decisions tend to clash, consider splitting up your clients or processes and working separately within two divisions. Of course, if you're lucky enough to have complementary strengths and weaknesses, the division of labor should be simple.

When spouses work well together, a family business can be extremely satisfying. We can help you address any possible tax issues and create a business plan that's best for your situation. Call us for an appointment to explore the possibilities. ♦



Don’t forget your 401(k) when you switch jobs

Changing jobs can be stressful. A new boss, new coworkers and new benefits can make it easy to forget what to do with your 401(k) plan at your old company.

Often the easiest choice may end up being the worst choice: taking a distribution from the old plan and putting it in the bank. It’s tempting, because who couldn’t use some extra cash? But if you do, you’ll owe taxes on the distributed funds and usually a penalty as well. You’ll even lose the benefit of future tax-deferred growth on your savings. And if you spend the money, you’ll have to start saving for retirement from scratch.

Instead, consider the following three options:

Ask your new employer whether you can roll your balance into the new company’s plan.

If you can, arrange a direct transfer between plans. This is often difficult to do, as new employers are cautious about bringing in outside funds. Having to complete a probationary period before you can join your new company’s plan further complicates this process.

Leave your balance in the old plan.

Leaving things alone for a while removes the pressure of an immediate decision. Later on you can transfer the funds to a different plan.

Roll over your balance into an individual retirement account (IRA).

Rollovers avoid immediate taxes and let your savings continue to grow tax-deferred. They also give you maximum flexibility for future investments. You even have the ability to later convert them into Roth IRAs. If considering this option, ask for a “trustee-to-trustee” transfer to avoid any potential tax risk.

Bottom line: Do all you can to keep your savings in a tax-advantaged account. You’ll be glad you did when you reach retirement age. Call our office if you have questions about your 401(k) plan. We’ll be happy to discuss your options. ♦

CASH FLOW CORNER

Success is as simple as ABC

The No. 1 cause of business failure is poor cash flow management. Cash Flow Corner gives you tips to help you master this business fundamental.

Businesses that focus solely on sales and profits can be caught by surprise when they discover there is not enough cash to pay the bills. The more you’re aware of your cash flow needs, the more control you’ll have over your business. Here are some simple rules:

A Calculate cash flow. First, calculate cash flow from operations by taking net profit and adding back depreciation and amortization (non-cash outlays). After you have this number, focus on other aspects of the business that use or create cash. Focus on your balance sheet. Each account will need to be reviewed for changes from the prior period. For example, if your accounts receivable is higher, your cash flow decreases because fewer customers have paid in cash. This can seem complicated, but simply focus on each change and ask yourself whether it added to or subtracted from your cash flow.

These calculations can be done using whatever operational timeframe is most meaningful to you (monthly, quarterly, etc.). The best results are usually obtained by using monthly cash flow statements and projections based on prior data.

B Create a cash flow history. Build a cash flow history by using historical financial records over the course of the year. This will create a powerful tool for projecting the timing of receipts, expenditures and financing needs. Periods of negative cash flow can seriously hinder expansion plans and may even lead to business failure. Cash flow statements and projections can warn you of cash needs and allow you to make changes.

C Take steps to improve cash flow. Consider ideas to help improve your cash flow. Reduce lag time between shipping and invoicing. Re-examine credit and collection policies. Consider offering discounts for early payment and charging interest on delinquent balances. Look for ways to convert excess and unsold inventory back into cash.

As one of the key success factors in all businesses, understanding cash flow is critical. Thankfully, a basic understanding can be as simple as ABC. ♦

The 5 numbers that'll make or break your business

Regardless of the type of business you're running, monitoring a few numbers is often what's needed to keep your company growing and prosperous. On the other hand, neglecting a firm's vital signs can lead to management by crisis and corrective actions that are too little, too late.

A company's key financial indicators often fall into one or more of the following categories:

1. Orders and returns. Are you selling more units over time? To find out, look at your sales figures by units. Tracking revenue alone may present a false picture. After all, revenue may be growing because prices have increased. If unit sales are declining, you might be losing market share.

2. Breakeven point. You need to know if you're selling enough products or providing enough services to break even. If you're dipping into reserves to cover revenue shortfalls, adjustments may be required.

3. Liquidity. Every month your accountant or bookkeeper should ensure your general ledger agrees with the bank's records of deposits and withdrawals. If a company is losing cash the bank statements should tell the story.

4. Inventory. Controlling the product on your retail shelves and accumulating in your warehouse is often a key to profitability. Buying too many items may lead to excessive storage costs and high waste.

5. Payroll. Staff size should be commensurate with revenues. Medium-sized businesses can especially find that labor expenses grow too rapidly. A decline in orders may signal a need to reduce payroll costs.

Over time your business's vital numbers may change. The key is to know your company, identify changing conditions and adapt. ♦

We appreciate your business. Please call any time we can be of assistance to you in your tax, financial, or business affairs.

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Tax CALENDAR

SPRING 2018

March 2

- Automatic extension deadline for employers and health care providers to provide Forms 1095-B and 1095-C to individuals.

March 15

- 2017 calendar-year S corporation income tax returns are due.
- 2017 partnership returns are due.
- Deadline for calendar-year corporations to elect S corporation status for 2018.

April 17

- Individual income tax returns for 2017 are due.
- 2017 calendar-year C corporation income tax returns are due.
- 2017 annual gift tax returns are due.
- Deadline for making 2017 IRA contributions.
- First installment of 2018 individual estimated tax is due.

May 15

- Deadline for calendar-year nonprofit organizations to file annual reporting returns. ♦