Ameriprise Financial

Carlson Advisors

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Tax Reform Changes That May Impact Your Small Business

For small business owners, managing the bottom line of their company is often a top priority. If you operate a business of any kind, it's important to understand the impact of the tax law changes that took effect in 2018 and how they may affect your business. Here are some of the basics.

Lower corporate tax rate and new pass-through provisions
There is a new 21 percent flat tax rate on net income for C Corporations. For smaller businesses this could have a negative impact, as under previous law, up to $50,000 was taxed at 15 percent. However, for companies with larger profits, this likely represents a tax cut from the previous highest rate of 35 percent.

The law is more complex, but potentially more favorable, for pass-through entities such as S Corporations, partnerships and limited liability companies (LLCs). You may be able to deduct up to 20 percent of qualifying income from these entities before determining your personal tax bill. However, several limitations apply, so it is vital that you work with a tax professional who fully understands all the rules related to this provision to make sure you are properly reporting your earnings.

Immediate write-off of purchased assets
Businesses can now immediately deduct the entire cost of qualifying assets, which covers a wide range of tangible personal property your business may acquire and place in service — except land, buildings and certain longer-lived property. This provision is retroactive to September 27, 2017. It applies to purchases of new and used depreciable assets with lives of 20 years or less. There is no limit on the total amount that can be expensed in a year. This can be a major near-term tax advantage compared to waiting for the value of assets to depreciate over a period of years.

Vehicle tax deductions
If you buy a new or pre-owned "heavy" SUV, pickup, or van (over 6,000 pounds) this year and put it to use in your business, you are potentially eligible for 100 percent first-year bonus depreciation. That means you can write off the entire business portion of the cost on this year's tax return. The only requirement is that you must use the vehicle over 50 percent for business. If business usage is between 51 percent and 99 percent, you can deduct that percentage of the cost. Depreciation is capped at $18,000 for the first year that the vehicle is in service, $16,000 in year two and $9,600 in year three. After that, you can depreciate the cost in increments of $5,760 per year. This write-off will reduce your federal income tax bill and self-employment tax bill, if applicable.

Family Paid Leave credit
If your firm offers paid family or medical leave to employees, a temporary credit may be available for 2018 and 2019. The credit is between 12.5 and 25 percent of the wages paid to the employee during the period of the leave, if these leave wages are at least 50 percent of the employee's normal wages. Check with your tax professional for the specifics on how the law may apply to your business.

Less favorable changes
As with any comprehensive law enacted, some changes may not be to your benefit and could increase your taxes. For example:

- You can no longer write off business entertainment expenses, such as golf course fees and tickets for shows or sporting events, even if you are entertaining clients.
- You cannot deduct the cost of transportation-related benefits for employees, such as bus passes or parking reimbursement.
- Net operating loss deductions are limited to 80 percent of taxable income in a future year. The remainder carries forward, with no ability to carryback losses to previous years.
- Business losses claimed on an individual return are capped at $500,000 for a married couple and $250,000 for a single tax filer. Any excess losses over that amount can be carried forward.

Look for professional guidance
Consult with your tax professional to understand the impact of these new laws as you assess key business decisions. It is also valuable to work with your financial advisor to determine how the new tax laws may affect your personal financial plan.

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