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Small Business: Try to maximize tax savings before year-end

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With holidays fast approaching, tax season may not be top of mind.

But it should be, considering there's still an opportunity before the end of the year to make some strategic decisions for your business that could help come tax time, experts say.

"Small businesses should engage in the perennial exercise of taking tax-advantaged actions before year-end to make sure they're maximizing all the tax breaks available," says Barbara Weltman, a Vero Beach, Florida-based small business tax specialist and author of J.K. Lasser's "Small Business Taxes 2020."

Among the breaks expiring year-end unless renewed are the Work Opportunity Tax Credit, a federal tax credit available for hiring individuals from certain targeted groups who have consistently faced significant barriers to employment, including qualified long-term unemployed and veterans, she says. Another credit disappearing unless extended is the Tesla tax credit for electric vehicle purchases, which started at \$7,500 but is down to \$1,875 until year-end, Weltman says. Similarly, the GM tax credit, also at \$1,875, expires at the end of March 2020.

"It's basically use it or lose it," Weltman says.

Still, as with any kind of purchase, the key is maximizing the tax benefit only if you actually need to make the purchase anyway.

“Economics always should come before tax,” says Ken Rick, a partner at Janover LLC, a Garden City-based CPA firm. “Don’t buy things you don’t need just to get a write-off.”

With that said, companies looking to purchase new or used property, such as machinery or office equipment, could benefit from two potential deductions: Section 179 and bonus depreciation.

Section 179 allows taxpayers to deduct the cost of certain property as an expense the year the property is placed in service.

For the 2019 tax year, businesses that purchase \$2.55 million or less in qualifying equipment can deduct up to \$1,020,000 of that cost. Beyond the \$2.55 million, the deduction is reduced.

Separately, bonus depreciation allows you to deduct 100% of the cost of qualified property such as machinery, equipment, computer, furniture, etc., placed in service before year-end, Weltman says. It’s generally taken on bigger purchases after the Section 179 spending cap is reached.

While the two deductions seem similar, certain types of property are eligible for one and not the other, she says. For example, qualified property for Section 179 includes certain internal improvements to commercial property such as an alarm/security system, she says.

So it’s best to check with a tax adviser on which is best.

Keep in mind bonus depreciation is also available on heavy-duty trucks and certain heavy-duty SUVs, Rick says.

Separately, employers should consider setting up a retirement plan if they were looking to do so anyway, he says.

You'll get a tax deduction for any contributions you plan to put in for yourself and employees, he says. He noted that in many cases, if you set up the plan before the end of the year you can receive tax benefits even if it's not funded until 2020.

A federal tax credit for installing solar panel systems on commercial properties is set to be reduced each year after 2019 from 30% to eventually 10% in 2022, Rick says.

Among other tax considerations for small business owners and individuals is making sure they adjust their income tax withholdings before year-end to ensure they're not under-withheld in 2019, says Karen O'Connor, a partner at Marcum LLP in Melville. Some taxpayers in 2018 were unaware the withholding tables were updated due to the tax changes brought on by the Tax Cuts and Jobs Act and were subsequently under-withheld last tax season, she said.

(See <https://www.irs.gov/payments/tax-withholding>).

Also, small business owners and individuals that make charitable contributions should consider bunching two years worth of charitable contributions into a single year, O'Connor says. This may bring them above the increased standard deduction created by the TCJA, allowing them to itemize deductions for that year, providing a potentially greater benefit over a two-year period, she says.

The bottom line? "There's still an opportunity to adjust any of your previous tax planning strategies," O'Connor says.

Filing on time

Despite significant changes brought about by the Tax Cuts and Jobs Act, nearly three-quarters of small business owner respondents in a recently released National Federation of Independent Business survey reported filing their 2018 federal income taxes on time by April 15. Twenty-seven percent of small business owners applied for an extension, with 18% of those saying they needed more time due to the new tax law.

(Source: nwsdy.li/nfib)