

# Providence Business News

<https://pbn.com/deductions-depreciation-are-adding-up-for-some-small-business-owners/>

## Deductions, depreciation are adding up for some small-business owners

By **Mary MacDonald**

January 17, 2020 3:16 am

Small-business owners in Rhode Island are taking advantage of tax credits and cuts first made available in 2018 but which are becoming more commonly known, according to accountants.

Chief among them is a 20% tax deduction on net business income. Another significant benefit allows businesses to write off at an accelerated pace most major purchases, including vehicles, computer systems and manufacturing equipment.

The changes, encompassed in the tax overhaul passed in 2017, first took effect in the 2018 tax year but are now more known among business owners, according to Thomas Lisi, office managing partner for tax and business at Marcum LLP in Providence.

The tax code changes were among the most substantive in three decades and were a campaign promise of President Donald Trump. In December, Trump signed into law a series of retirement-plan changes, which also have tax implications for businesses.

The accumulated changes have required both accountants and businesses to adapt their tax planning. In some cases, they seem like simple tax cuts, but the application is not simple.

The 20% business income tax deduction, for example, isn't as straight forward as it might sound, Lisi said.

***'The complications you really should plan. You want to maximize that deduction.'***  
***THOMAS LISI, Marcum LLP office managing partner***

"The complications you really should plan," he said. "You want to maximize that deduction. It comes down to what is their bottom line. What is their pass-through income that they can qualify?"

The tax cut, called the Qualified Business Income Deduction, applies to businesses that are structured as "pass throughs" that pass on income as the owners' personal income. It applies to businesses that are formed as S corporations, limited liability companies, partnerships and sole proprietorships, who file a Schedule C.

Major corporations benefited from a dramatic tax cut, as well. Their rate fell to 21%, from 35%, according to Anthony Scorpio, a certified public accountant and partner at Mullen Scorpio & Cerilli in Providence.

Most of the clients he sees who achieved these savings have reinvested the funds in the business.

"Especially with businesses, any time you see savings on taxes, the smart people are reinvesting in their business," he said.

The tax law now encourages business owners to make those investments. Under an expedited depreciation schedule, businesses that make major purchases can write it off in full. This puts the money back into the business more quickly than it would otherwise.

Many small businesses have taken advantage of this flexibility, both Scorpio and Lisi said.

"That's how I spent the month of December," Scorpio said.

That's because the purchases that are made in December can be taken off that year's income. "That really encourages businesses to go out and spend money." The purchases can be applied to a newly expanded deduction of up to \$1 million annually, which for small business can be applied to a variety of equipment needs. The previous maximum was \$500,000. The law also expanded eligible purchases for accelerated depreciation to include building improvements such as heating, ventilation and air conditioning systems, fire protection, alarms and security systems, according to a tax center at Iowa State University.

Depending on the needs of small business, the accelerated depreciation can have a large impact.

"Businesses can write off furniture and fixtures, computers and equipment," Scorpio said. "That's the time value of money, present-value money, that money gets returned to them right away."

He advised clients who wanted to take advantage of accelerated depreciation to make the purchases. "Especially if there is a need, they will go spend the money, before the end of the year for the tax deduction," he said.

Scorpio said one client spent \$250,000 on underground equipment. Another, a retailer, purchased a new truck to transfer inventory from one store to another in Rhode Island.

Lisi said his clients also purchased needed equipment. The write-offs being expedited is a cash flow improvement, he said, putting the money back into the business more quickly.

"If you buy a \$1 million manufacturing machine, and you write off that \$1 million in year one, as opposed to the useful life of the machine, which could be 10 years ... it's cash flow," he said.

The depreciation change is spurring economic growth at companies, Lisi said. "If you need to buy something, why buy it in January or February? You buy it in December and you're able to defer that income into the following year. And have use of the cash," he said.

The law signed most recently by Trump relating to retirement plans and savings also has implications for small businesses, accountants say.

The most significant relates to multiple employer plans, making it easier for smaller employers to join together in a retirement plan.

The law, called the SECURE Act – Setting Every Community Up for Retirement Enhancement Act – also provides a credit for employers who use auto-signups for employees in their retirement plans, according to an analysis by the tax center at Iowa State University.