



Dear Valued Client,

While the year is winding down, there is still time to reduce your 2019 tax bill and plan ahead for 2020. Year-end planning for 2019 takes place against the backdrop of recent major changes in the tax rules for businesses. We have provided a few strategies below to help minimize your tax burden before your attention turns to 2020.

**Qualified Business Income Deduction.** Taxpayers other than corporations may be entitled to a deduction of up to 20% of their qualified business income (QBI). The deduction may be limited based on whether the taxpayer is engaged in a service-type trade or business (such as law, accounting, health, or consulting), the amount of W-2 wages paid by the trade or business, and/or the unadjusted basis of qualified property (machinery and equipment) held by the trade or business. Taxpayers may be able to achieve significant savings with respect to the QBI deduction by deferring income or accelerating deductions based on certain taxable income thresholds. Taxpayers also may be able to increase the new deduction by increasing W-2 wages before year-end. The rules are complex, so if you have questions, please contact us soon so we can further discuss what can be done to maximize your deduction for 2019.

**Defer or Accelerate Income.** Income deferral or acceleration remains an important consideration in business tax planning. If you expect your taxable income to be higher in 2019 than 2020, or you anticipate being taxed at a higher rate in 2019 than 2020, you may benefit by deferring income into 2020. If you anticipate being taxed at a higher rate in 2020, or perhaps you need additional income this year to take advantage of an offsetting deduction or credit that will not be available in a future tax year, accelerating income into 2019 may be beneficial.

- *Cash Method of Accounting:* By adopting the cash method of accounting instead of the accrual method, you can generally put yourself in a better position for accelerating deductions and deferring income. With the new tax laws, more small businesses are now eligible to use the cash method of accounting. Cash method taxpayers may find it easier to shift income, for example by holding off billings until next year, accelerating expenses, or paying bills before they are due.
- *Installment Sales:* Generally, if gain will be realized on the sale of property, income recognition will normally be deferred under the installment method until payments are received, as long as one payment is received in the year after the sale. Consider selling the property and reporting the gain under the installment method to defer income.
- *Early Collection:* Consider issuing bills and pursuing collection before the end of 2019. Some customers may be willing to pay for 2020 goods or services in advance in order to take the deduction for these items in 2019. Any income received using these steps will shift income from 2020 into 2019.

**Accelerate Business Deductions.** If a business uses the accrual method of accounting, accounts receivable should be analyzed and those receivables that are totally or partially uncollectible should be written off. By identifying specific bad debts, the taxpayer should be entitled to a deduction. For non-business bad

debts like uncollectible loans, the debts must be wholly worthless to be deductible, and will probably only be deductible as a capital loss.

**Section 179 and Bonus Depreciation.** Consider making expenditures that qualify for the liberalized business property expensing option. For tax years beginning in 2019, the expensing limit is \$1,020,000, and the investment ceiling limit is \$2,550,000. Expensing is generally available for most depreciable property (other than buildings) and off-the-shelf computer software. It is also available for qualified improvement property (generally, improvement to a building's interior). This is a potent tool for year-end tax planning. Property acquired and placed in service in the last days of 2019 can result in a full expensing deduction for 2019. Businesses also can claim a 100% bonus first year depreciation deduction for machinery and equipment bought used, with some exceptions, or new, if purchased and placed in service in 2019, even if it is in the last days of the year.

**De Minimis Safe Harbor Election.** Businesses may be able to take advantage of the de minimis safe harbor election to expense the costs of lower-cost assets and materials and supplies. The cost of a unit of property can't exceed \$5,000 if the taxpayer has an applicable financial statement (AFS), or \$2,500 without an AFS. Consider purchases by the end of 2019.

**Change C Corporation Net Operating Loss to Small Profit.** A small corporation that anticipates a small net operating loss (NOL) for 2019 and substantial net income in 2020 may find it worthwhile to accelerate just enough of its 2020 income (or to defer just enough of its 2019 deductions) to create a small amount of net income for 2019. This will permit the corporation to base its 2020 estimated tax installments on the relatively small amount of income shown on its 2019 return, rather than having to pay estimated taxes based on its much larger 2020 taxable income.

**Tax Credits.** Generally, tax credits reduce a taxpayer's liability on a dollar-for-dollar basis. There are many tax credits available for taxpayers to consider, including the Research and Development Tax Credit for companies developing new or more reliable products and processes, the Work Opportunity Tax Credit for companies hiring individuals in groups whose members historically have had difficulty obtaining employment, the Energy Investment Tax Credit for investments in certain alternative and renewable energy property as well as several New York State credits designed to benefit small or expanding businesses.

These are just a few of the ways in which you may be able to reduce your 2019 tax burden. We would be happy to assist you with your year-end tax planning or answer any questions you have. Please contact our office at your earliest convenience to schedule an appointment.

Sincerely,

**Sciarabba Walker & Co., LLP**