Inc.

You Might Be Able to Lower Your Business's 2018 Tax Bill by 20 Percent. Here Are the Details

Under the new tax law, most small businesses will qualify for a 20 percent deduction on taxable income. Is yours one of them?

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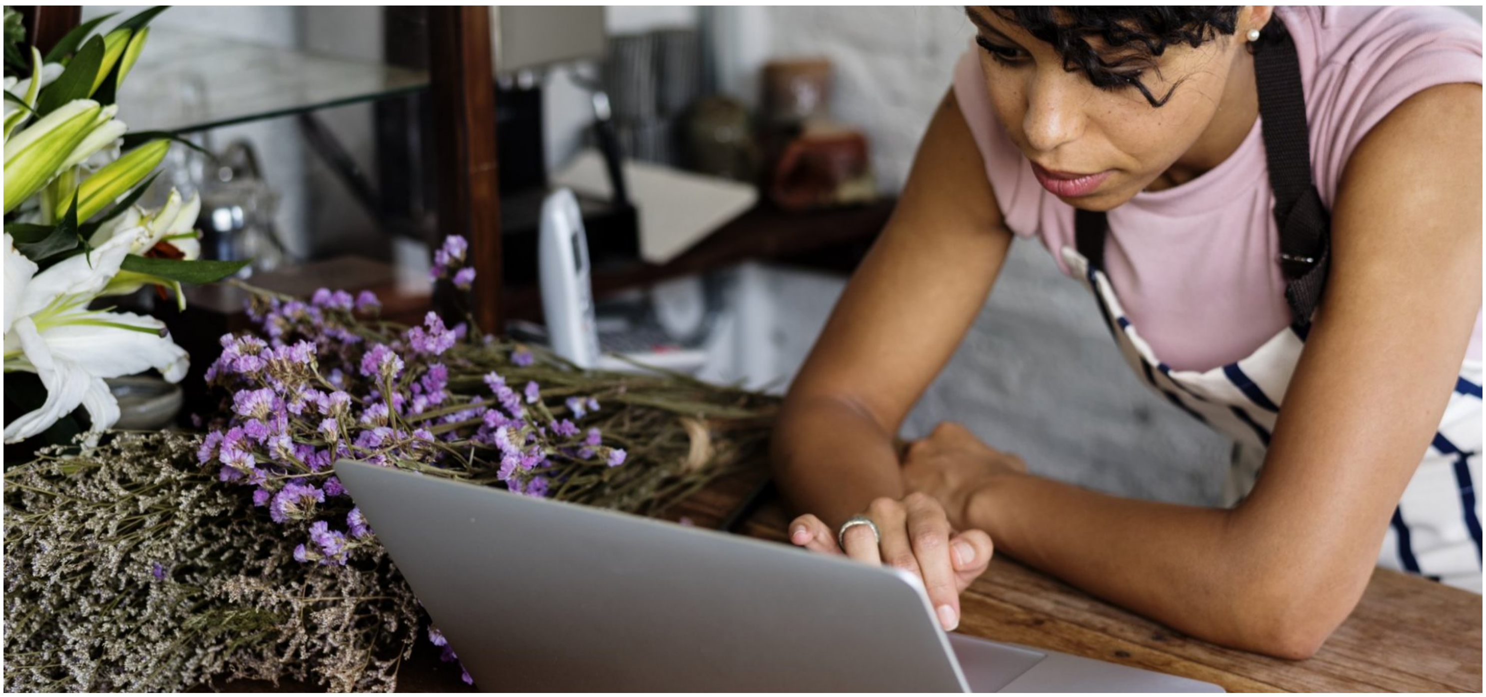

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The Tax Cuts and Jobs Act included a gift for many entrepreneurs: a 20 percent deduction for certain business income from domestic business operations. At its core, the qualified business income (QBI) deduction, available through 2025, was put in place to be competitive with the other notable gift to corporations: the new 21 percent tax rate. However, not all small-business owners will reap these rewards from the tax reform.

The Internal Revenue Service issued proposed regulations in mid-August, answering many of the questions about the small-business deduction that weighed heavily on the minds of entrepreneurs. Determining your eligibility for the tax break under the Tax Cuts and Jobs Act steps to calculate your QBI deduction.

1. Determine if your business is eligible for the small-business deduction.

In the IRS' proposed regulations, business structure matters. Owners of U.S. businesses operated as sole proprietorships, or through a partnership, S corporation, trust, or estate are eligible for the deduction on qualified business income. This also applies to REITs (real estate investment trusts) and PTPs (publicly traded partnerships). Sounds easy enough, right? Unfortunately, owners of co-ops and certain other businesses--specified service trades or businesses--will face limitations on the deductible amounts.

2. Determine your ability to take the small-business deduction.

Owners of most eligible businesses will be able to take the full 20 percent deduction (based on the lesser of the business' income and the taxpayer's income). However, industry and income amounts also play roles in determining eligibility. So, even if your business is covered, you may not get the full amount--or perhaps not any--of the small-business deduction.

The QBI deduction has blanket limitations that affect all filers, limiting the deduction based on W-2 wages with respect to the trade or business and the unadjusted basis immediately after acquisition (UBIA) of all qualified property (basically, depreciable property). Moreover, the qualifying deduction amount is capped at 20 percent of the taxpayer's income less capital gains and certain investment income, as noted above. Confused yet? Well, buckle up.

Certain businesses have limited access to the QBI deduction to begin with. Any business that is considered a specified service trade or business (SSTB) will claim the QBI deduction only if the individual's income is below $207,500, or $415,000 if filing a joint return. Further, the deductible amount phases out from 20 percent beginning at $157,500, or $315,000 if filing a joint return. The list of specified service trades or businesses is quite extensive and is included in the proposed regulations, if you're curious. What does this mean in layman's terms? These businesses will usually be able to claim the QBI deduction; however, as

What do you do with all of this information?

These regulations are not final yet. Entrepreneurs who want to make their opinion known can comment, but should do so before the window of opportunity closes. In the meantime, the IRS has said taxpayers can rely on the proposed rules. So what does this mean for most entrepreneurs?

If you're in the planning stages of your business, taking this information into account can help you set up your business with an eye toward savvy tax planning. If your business is already up and running, perhaps this deduction can further your company's viability. Every business is, of course, unique, and some may want to revoke their S corp elections or elect to be taxed as a C corp. Working with your accountant is a great idea, so you can use available tools in order to maximize the QBI deduction. Significant tax planning opportunities are available for small businesses. Keeping the tax ramifications of your business decisions at the forefront of your mind--even when tax season is nowhere in sight--can benefit any entrepreneur.

PUBLISHED ON: SEP 18, 2018