ClientLine®

December 2019

YEAR-END BUSINESS TAX BREAKS

If you own a small business, there are a variety of moves you can make to reduce business income taxes for 2019. Here are a few, which you should discuss with a professional tax advisor:

TAKE THE ALTERNATIVE

If your business is structured as an S corporation, partnership or LLC or you have a sole entrepreneurship, you may be able to deduct up to 20% of qualified business income, subject to a variety of rules and limits. A tax professional can advise you on your individual circumstances.

NOW OR LATER

If you expect your business to earn more next year than in 2019, delay paying expenses until 2020 and accelerate income this year. If your business looks like it will earn less next year, do the opposite.

GET CREATIVE

Along these same lines, consider moving up bonuses from early 2020 to 2019 if you expect this year to be more profitable than the next.

BUY AND DEDUCT

Buy qualified business equipment, property or other assets and write off up to $1.02 million at once, instead of depreciating, in 2019. Your business may also take 100% depreciation on other assets. As always, these tax features are subject to limits and restrictions.

EAT UP

Reasonable costs of buying meals for clients are 50% deductible.

PLAN NOW

If you run a family business, the costs of hiring an attorney, valuation expert, business consultant and other professionals to plan your firm's succession are deductible.

MAKE A SPLASH

Hire marketing and social media vendors to increase your company's reach and influence, and deduct reasonable costs from your business income.

HAVE A PARTY

Sponsoring a holiday party for employees can bring good will and another tax deduction on your 2019 return.

GET HELP

Work with a tax professional and get a tax break on tax services, too.

Karen Petrucco
Account Manager

LTM Client Marketing
45 Prospet Ave
Albany, NY 12206

Tel: 518-870-1082
Toll Free: 800-243-5334 ext.505
Fax: 800-720-0780

kpetrucco@ltmclientmarketing.com
www.ltmclientmarketing.com

There's Still Time

Individuals have a few tax breaks to explore, too. The IRS disallows many deductions if you take the standard deduction, but not all, for 2019. For example, you can deduct some expenses related to self-employment (see p. 3 story) if you're self-employed. Student loan interest and college tuition and fees may also be deductible. Talk to your tax professional to learn about the specifics.

If You Itemize

If your deductions are greater than the standard deduction of $12,200 for single and married taxpayers filing separately or $24,400 for those filing jointly, consider itemizing them. This means you may subtract qualified charitable donations, medical expenses over 10% of your adjusted gross income, classroom supplies of up to $250 if you are a teacher, mortgage interest and gambling losses. You may also want to delay income and pay expenses in 2019 if you expect to earn more than in 2020.

TAX-LOSS HARVESTING

If investments you sold in 2019 lost money, you may find some solace in the IRS tax code. You can deduct certain losses from your taxable income – called tax-loss harvesting – when you understand the rules. Here they are briefly:

TERMS DEFINED

For starters, the IRS has separate tax rates for long-term investments – those which you have held at least a year. The capital gains tax rate on net realized long-term investment gains, or capital gains, is 15% for most people. You realize losses and gains only on investments you sell, not on those you still hold. Investments held for a year or less trigger ordinary income tax rates, which are typically higher.

The IRS taxes some or all net capital gains at 0% if you're in the 10% or 12% ordinary income tax brackets. You'll pay 20% on net capital gains if your taxable ordinary income exceeds $434,550 if filing as a single, $488,850 if filing jointly or as a qualifying widow, $461,700 if you are a head of household and $244,425 if married and filing separately.

THE CALCULATION

To figure net losses, subtract what you realized from selling your investment from the original amount invested and then deduct any sales charges. If your realized capital losses are greater than realized capital gains, deduct up to $3,000 a year, or up to $1,500 if married and filing a separate return. You may carry forward any losses over this annual cap to the next tax year.

LONG-TERM VIEW

Don't sell investments just for tax reasons. Keep those that lost money last year if they continue to have long-term prospects and sell winners if they don't fit your investment strategy.

Client PROFILE....

Jenny owns a warehousing company and wants to give a holiday party, but she has heard that the cost is either 50% deductible or 100% deductible from business income. Which number is correct, and can she also give cash gifts to employees?

Jenny may have heard two similar IRS rules. The first allows companies to deduct 50% of employee meal costs during the course of normal business. She can deduct 100% of meals provided employees when offering company recreational or social activities, such as holiday parties or annual picnics.

To qualify, the holiday party should be primarily for the benefit of employees other than officers, shareholders or other owners who own a 10% or greater interest of the business.

Jenny can also give cash gifts to employees, but she and her employees should be aware that they are considered taxable income. She might include a gift to each employee that is typically worth less than $25, which they don't have to report as income. Better yet, if Jenny was planning to give a larger cash gift, she might contribute it to employees' retirement plans, where it would be tax-deferred.

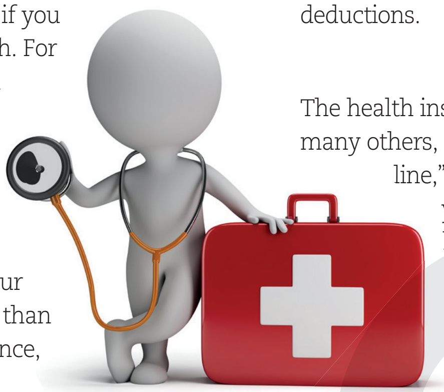
Client Profile is based on a hypothetical situation. The solutions we discuss may or may not be appropriate for you.

HEALTH INSURANCE DEDUCTION FOR SELF-EMPLOYED

There are many reasons why being self-employed isn't for everyone, not the least being you're responsible for buying your own health insurance. You can however, take a deduction from your taxable income on your 2019 tax return for health insurance premiums paid.

NO COVERAGE ELSEWHERE

You need to meet two major requirements to qualify for this tax break. First, you and your spouse cannot be eligible for an employer-sponsored health insurance benefit. Second, you must have enough business income to qualify. You can take a partial deduction if you don't have enough. For example, you can only deduct $10,000 of a $15,000 health insurance policy if your income was $10,000. If your income is greater than the cost of insurance, deduct the entire premium.



ITEMIZE OR NOT

Unlike so many other deductions that disappeared after the Tax Cut and Jobs Act of 2017 became law, you don't have to itemize this on your tax return, meaning you may want to also take the standard deduction if you only have a few other deductions.

The health insurance deduction, unlike many others, is considered "above the line," meaning it is deducted from your gross income and lowers your eventual adjusted gross income. The latter category often determines your availability for other tax breaks, including deductible IRAs.

SELLING YOUR BUSINESS?

Will you sell your business in the next couple of years? If you plan to, the steps you take now can help you get the most for your firm.

PLAN AHEAD

Finding the time to plan your eventual business sale can seem daunting when business owners have so many day-to-day tasks to complete. However, selling a business can be stressful, whether it leads to retirement or because the owner needs to sell it for health or other reasons. Preparation will matter.

Start by finding a valuation expert who can identify a fair value for your firm.

This expert will take into account your company's market share, profitability, future viability and more. For example, a one-person design firm may have nothing but tangible equipment to influence pricing, since the one person responsible for success will be leaving. Conversely, an insurance agency with a reputable staff and booming business might fetch top dollar.

OTHER STEPS

In your company's final years, continue to hire, upgrade, grow and market as if you are in this forever. These habits can only increase the value of your concern. And work with an accountant to have all the relevant numbers at your fingertips, from gross and net business income to payroll and proof of tax compliance.

Q&A

Q **My company is thinking about offering a student loan repayment benefit for our employees. How does it work?**

A This benefit, which pays off anywhere from a few hundred to a few thousand dollars a year in student loan debt for employees, has grown in popularity among Fortune 1,000 companies and may make sense for smaller companies. Firms can deduct the cost for a benefit that helps attract and retain top talent, and workers may stay with employers to keep the benefit. There aren't many rules governing this, so you might even have employees vest before getting the benefit. You might also offer an incentive for the loan repayment benefit in line with what employees put away for retirement, helping them meet another challenge.

Q **I am receiving alimony and heard that the tax rules have changed on this income. Is it true alimony is now tax-free?**

A In this case it's much better to receive than to give, according to the IRS. If you receive alimony payments directed by an agreement that was new or suitably modified in 2019, you won't owe federal income taxes on the amount. You may still owe local taxes on alimony and for older agreements, treating it as income for federal income tax purposes. Incidentally, pre-2019 alimony payments were tax-deductible, but not for post-2018 agreements.

ClientLine® SHORT BITS....

> THAT'S RICH!
Want to be really, really rich? Wealth-X, a global leader in wealth information and insights, reports that an education from certain colleges combined with working in the banking and finance industry makes this more likely. Leading this endeavor is Harvard University, followed in distant second place by England's Cambridge University and the National University of Singapore. Better than 4 in 10 ultra-high-net-worth individuals were in the banking and finance industry. In the U.S., Harvard was joined in order by Stanford, the University of Pennsylvania, NYU and Columbia to round out the top five.

> JOB GROWTH SLOWING
The U.S. Bureau of Labor Statistics (BLS) reported that total nonfarm payroll employment in August rose by 130,000 while unemployment remained at 3.7%. The number was somewhat disappointing because it showed a slowing in growth, which included temporary Census jobs.

> SPENDING UP SLIGHTLY
BLS also recently compiled consumer economic information for all of 2018 and found that spending rose 1.9%. During the same period the Consumer Price Index (CPI-U) rose 2.4% percent, but average pretax income increased by 6.9%. Two bright spots: healthcare expenses rose only 0.8% while education costs fell 5.6%.

> STOCK OWNERSHIP
If you're wondering how many Americans own stock, Gallup has the answer. The research firm found that 55% of Americans owned stock in April 2019, in line with the previous few years, but well below an average of 62% pre-recession from 2001 to 2008.