Wander CPA

Tax-Saving Tips

November 2019—2019 Year-End Strategy Edition

2019 Last-Minute Section 199A Strategies That Reduce Taxes

Remember to consider your Section 199A deduction in your year-end tax planning.

If you don't, you could end up with a big fat $0 for your deduction amount. We'll review three year-end moves that (a) reduce your income taxes and (b) boost your Section 199A deduction at the same time.

First Things First

If your taxable income is above $160,700 (or $321,400 on a joint return), then your type of business, wages paid, and property can reduce and/or eliminate your Section 199A tax deduction.

If your deduction amount is less than 20 percent of your qualified business income (QBI), then consider using one or more of the strategies described below to increase your Section 199A deduction.

1. Harvest Capital Losses

Capital gains add to your taxable income, which is the income that

- determines your eligibility for the section199A tax deduction,
- sets the upper limit (ceiling) on the amount of your Section 199A tax deduction, and
- establishes when you need wages and/or property to obtain your maximum deductions.

If the capital gains are hurting your Section 199A deduction, you have time before the end of the year to harvest capital losses to offset those harmful gains.

2. Make Charitable Contributions

Because the Section 199A deduction uses taxable income for its thresholds, you can use itemized deductions to reduce and/or eliminate threshold problems and increase your Section 199A deduction.

Charitable contribution deductions are the easiest way to increase your itemized deductions before the end of the year (assuming you already itemize).

3. Buy Business Assets

Thanks to 100 percent bonus depreciation and Section 179 expensing, you can write off the entire cost of most assets you buy and place in service before December 31, 2019.

This can help your Section 199A deduction in two ways:

1. The big asset purchase and write-off can reduce your taxable income and increase your Section 199A deduction when it can get your taxable income under the threshold.
2. The big asset purchase and write-off can contribute to an increased Section 199A deduction if your Section 199A deduction currently uses the calculation that includes the 2.5 percent of unadjusted basis in your business's qualified property. In this scenario, your asset purchases increase your qualified property, which in turn increases the deduction you already depend on.

2019 Last-Minute Year-End Medical and Retirement Deductions

When you get busy with your business, it's easy to forget about your retirement accounts and medical coverages and plans. But year-end is approaching, and now's the time to take action.

Here are the six strategies that you can implement before the end of the year. Five of the strategies increase your tax deductions, and one (the Roth) strategy increases your retirement benefits.

1. Put your retirement plan in place no later than December 31 so you are absolutely sure that you have a plan. Be sure to make a contribution to the plan before December 31.
2. Convert your traditional IRA to a Roth IRA. The long-term savings here can be huge. Make sure to leave the converted funds in the Roth for at least five years.
3. If you have a Section 105 plan in place and you have not been reimbursing expenses monthly, do a reimbursement now to get your 2019 deductions, and then put yourself on a monthly reimbursement schedule in 2020.
4. If you have not implemented your qualified small employer health reimbursement account (QSEHRA), make sure to get that done properly now. If you have not yet put a QSEHRA in place and you plan to do so on January 1, do that now and just suffer that $50-per-employee penalty should you be found out. Alternately, consider implementing an individual care HRA (ICHRA) in 2020.
5. If you operate your business as an S corporation and you want an above-the-line tax deduction for the cost of your health insurance, you need the S corporation to (a) pay for or reimburse you for the health insurance and (b) put it on your W-2. Make sure that the reimbursement happens beforeDecember 31 and that you have the reimbursement set up to show on the W-2.
6. Claim the tax credit for the group health insurance you give your employees. If you provide your employees with group health insurance, see whether your pay structure and number of employees put you in a position to claim a 50 percent tax credit for some or all of the monies you paid for health insurance in 2019 (and possibly in prior years).

2019 Last-Minute Year-End General Business Income Tax Deductions

The goal of this strategy is to get the IRS to owe you money. Of course, the IRS is not likely to cut you a check for this money (although in the right circumstances, that will happen), but you'll realize the cash when you pay less in taxes.

Here are five powerful business tax-deduction strategies that you can easily understand and implement before the end of 2019.

1. Prepay Expenses Using the IRS Safe Harbor

You just have to thank the IRS for its tax-deduction safe harbors. IRS regulations contain a safe-harbor rule that allows cash-basis taxpayers to prepay and deduct qualifying expenses up to 12 months in advance without challenge, adjustment, or change by the IRS.

Under this safe harbor, your 2019 prepayments cannot go into 2021. This makes sense, because you can prepay only 12 months of qualifying expenses under the safe-harbor rule. For a cash-basis taxpayer, qualifying expenses include lease payments on business vehicles, rent payments on offices and machinery, and business and malpractice insurance premiums.

Example. You pay $3,000 a month in rent and would like a $36,000 deduction this year. So on Tuesday, December 31, 2019, you mail a rent check for $36,000 to cover all of your 2020 rent. Your landlord does not receive the payment in the mail until Thursday, January 2, 2020. Here are the results:

- You deduct $36,000 in 2019 (the year you paid the money).
- The landlord reports $36,000 in 2020 (the year he received the money).

You get what you want—the deduction this year. The landlord gets what he wants—next year's entire rent in advance, eliminating any collection problems while keeping the rent taxable in the year he expects it to be taxable. Don't surprise your landlord: if he had received the $36,000 of rent paid in advance in 2019, he would have had to pay taxes on the rent money in tax year 2019.

2. Stop Billing Customers, Clients, and Patients

Here is one rock-solid, time-tested, easy strategy to reduce your taxable income for this year: stop billing your customers, clients, and patients until after December 31, 2019. (We assume here that you or your corporation is on a cash basis and operates on the calendar year.) Customers, clients, patients, and insurance companies generally don't pay until billed. Not billing customers and patients is a time-tested tax-planning strategy that business owners have used successfully for years.

Example. Jim Schafback, a dentist, usually bills his patients and the insurance companies at the end of each week; however, in December, he sends no bills. Instead, he gathers up those bills and mails them the first week of January. Presto! He just postponed paying taxes on his December 2019 income by moving that income to 2020.

3. Buy Office Equipment

With bonus depreciation now at 100 percent along with increased limits for Section 179 expensing, buy your equipment or machinery and place it in service before December 31, and get a deduction for 100 percent of the cost in 2019.

Qualifying bonus depreciation and Section 179 purchases include new and used personal property such as machinery, equipment, computers, desks, chairs, and other furniture (and certain qualifying vehicles).

4. Use Your Credit Cards

If you are a single-member LLC or sole proprietor filing Schedule C for your business, the day you charge a purchase to your business or personal credit card is the day you deduct the expense. Therefore, as a

Schedule C taxpayer, you should consider using your credit card for last-minute purchases of office supplies and other business necessities.

If you operate your business as a corporation, and if the corporation has a credit card in the corporate name, the same rule applies: the date of charge is the date of deduction for the corporation.

But if you operate your business as a corporation and you are the personal owner of the credit card, the corporation must reimburse you if you want the corporation to realize the tax deduction, and that happens on the date of reimbursement. Thus, submit your expense report and have your corporation make its reimbursements to you before midnight on December 31.

5. Don't Assume You Are Taking Too Many Deductions

If your business deductions exceed your business income, you have a tax loss for the year. With a few modifications to the loss, tax law calls this a "net operating loss," or NOL. If you are just starting your business, you could very possibly have an NOL. You could have a loss year even with an ongoing, successful business.

You used to be able to carry back your NOL two years and get immediate tax refunds from prior years; however, the Tax Cuts and Jobs Act (TCJA) eliminated this provision. Now, you can only carry your NOL forward, and it can only offset up to 80 percent of your taxable income in any one future year.

What does all this mean? You should never stop documenting your deductions, and you should always claim all your rightful deductions. We have spoken with far too many business owners, especially new owners, who don't claim all their deductions when those deductions would produce a tax loss.

2019 Last-Minute Year-End Tax Strategies for Marriage, Kids, and Family

Here are five marriage, kids, and family strategies that you can put in play before the end of 2019.

1. Put Your Children on Your Payroll

If you have a child under the age of 18 and you operate your business as a Schedule C sole proprietor or as a spousal partnership, you absolutely need to consider having that child on your payroll. Why?

- First, neither you nor your child pay payroll taxes on the child's income.
- Second, with a traditional IRA, the child can avoid all federal income taxes on up to $18,200 in income.

If you operate your business as a corporation, you can still benefit by employing the child even though you and the child have to pay payroll taxes.

2. Get Divorced after December 31

The marriage rule works like this: you are considered married for the entire year if you are married on December 31. Although lawmakers have made many changes to eliminate the differences between married and single taxpayers, in most cases the joint return works to your advantage.

Warning on alimony! The TCJA changed the tax treatment of alimony payments under divorce and separate maintenance agreements executed after December 31, 2018:

- Under the old rules, the payor deducts alimony payments, and the recipient includes the payments in income.
- Under the new rules, which apply to all agreements executed after December 31, 2018, the payor gets no tax deduction, and the recipient does not recognize income.

3. Stay Single to Increase Mortgage Deductions

Two single people can deduct more mortgage interest than a married couple. If you own a home with someone other than a spouse, and you bought it on or before December 15, 2017, you individually can deduct mortgage interest on up to $1 million of a qualifying mortgage.

For example, if you and your unmarried partner live together and own the home together, the mortgage ceiling on deductions for the two of you is $2 million. If you get married, the ceiling drops to $1 million.

If you bought your house after December 15, 2017, then the reduced $750,000 mortgage limit from the TCJA applies. In that case, for two single people, the maximum deduction for mortgage interest is based on a ceiling of $1.5 million.

4. Get Married on or before December 31

Remember, if you are married on December 31, you are married for the entire year. If you are thinking of getting married in 2020, you might want to rethink that plan for the same reasons that apply in a divorce (as described above). The IRS could make big savings available to you if you get married on or before December 31, 2019.

You have to run the numbers in your tax return both ways to know the tax benefits and detriments for your particular case. But a quick trip to the courthouse may save you thousands.

5. Make Use of the 0 Percent Tax Bracket

In the old days, you used this strategy with your college student. Today, this strategy does not work with the college student, because the kiddie tax now applies to students up to age 24. But this strategy is a good one, so ask yourself this question: do I give money to my parents or other loved ones to make their lives more comfortable?

If the answer is yes, is your loved one in the 0 percent capital gains tax bracket? The 0 percent capital gains tax bracket applies to a single person with less than $39,376 in taxable income and to a married couple with less than $78,751 in taxable income.
If the parent or other loved one is in the 0 percent capital gains tax bracket, you can get extra bang for your buck by giving this person appreciated stock rather than cash.

Example. You give Aunt Millie shares of stock with a fair market value of $20,000, for which you paid $2,000. Aunt Millie sells the stock and pays zero capital gains taxes. She now has $20,000 in after-tax cash to spend, which should take care of things for a while.

Had you sold the stock, you would have paid taxes of $4,284 in your tax bracket (23.8 percent times the $18,000 gain).

Of course, $5,000 of the $20,000 you gifted goes against your $11.4 million estate tax exemption if you are single. But if you're married and you made the gift together, you each have a $15,000 gift-tax exclusion, for a total of $30,000, and you have no gift-tax concerns other than the requirement to file a gift-tax return that shows you split the gift.

2019 Last-Minute Year-End Tax Deductions for Existing Vehicles

Yes, December 31 is just around the corner.

That's your last day to find tax deductions available from your existing business and personal (yes, personal) vehicles that you can use to cut your 2019 taxes. But don't wait. Get on this now!

1. Take Your Child's Car and Sell It

We know—this sounds horrible. But stay with us. What did you do with your old business car? Do you still have it? Is your child driving it? Or does your spouse have it as a personal car?

We ask because that old business vehicle could have a big tax loss embedded in it. If so, your strategy is easy: take the vehicle and sell it to a third party before December 31 so you have a tax-deductible loss this year.

Your loss deduction depends on your percentage of business use. That's one reason to sell this vehicle now: the longer you let your spouse or teenager use it, the smaller your business percentage becomes and the less tax benefit you receive.

2. Cash In on Past Vehicle Trade-Ins

In the past (before 2018), when you traded vehicles, you pushed your old business basis to the replacement vehicle under the old Section 1031 tax-deferred exchange rules. (But remember, this rule doesn't apply any longer to Section 1031 exchanges of vehicles or other personal property occurring after December 31, 2017.)

Regardless of whether you used IRS mileage rates or the actual-expense method for deducting your business vehicles, you could find a big deduction here.

Check out how Sam finds a $27,000 tax-loss deduction on his existing business car. Sam has been in business for 11 years, during which he

- converted his original personal car to business use;
- then traded in the converted car for a new business car (car 2);
- then traded in car 2 for a replacement business car (car 3); and
- then traded in car 3 for another replacement business car (car 4), which he is driving today.

During the 11 years Sam has been in business, he has owned four cars. Further, he deducted each of his cars using IRS standard mileage rates.

If Sam sells his mileage-rate car today, he realizes a tax loss of $27,000. The loss is the accumulation of 11 years of car activity, during which Sam never cashed out because he always traded cars before he knew anything about gain or loss. Further, Sam thought his use of IRS mileage rates was the end of it—nothing more to think about (wrong thinking here, too).

Because the trades occurred before 2018, they were Section 1031 exchanges and so deferred the tax results to the next vehicle. IRS mileage rates contain a depreciation component of which Sam was unaware. That's one possible reason Sam unknowingly accumulated his big deduction.

To get a mental picture of how this one sale produces a cash cow, consider this: when Sam sells car 4, he is really selling four cars—because the old Section 1031 exchange rules added the old basis of each vehicle to the replacement vehicle's basis.

Examine your car for this possible loss deduction. Have you been trading business cars? If so, your tax loss deduction could be big!

3. Put Your Personal Vehicle in Business Service

Lawmakers reinstated 100 percent bonus depreciation, and that creates an effective strategy that costs you nothing but can produce solid deductions.

Are you (or your spouse) driving a personal SUV, crossover vehicle, or pickup truck with a gross vehicle weight rating (GVWR) greater than 6,000 pounds? Would you like to increase your tax deductions for this year?If so, place that personal vehicle in business service this year.

2019 Last-Minute Vehicle Purchases to Save on Taxes

Here's an easy question: Do you need more 2019 tax deductions? If yes, continue on.

Next easy question: do you need a replacement business vehicle?

If yes, you can simultaneously solve or mitigate both the first problem (needing more deductions) and the second problem (needing a replacement vehicle), but you need to get your vehicle in service on or before December 31, 2019.

To ensure compliance with the "placed in service" rule, drive the vehicle at least one business mile on or before December 31, 2019. In other words, you want to both own and drive the vehicle to ensure that it qualifies for the big deductions.

Now that you have the basics, let's get to the tax deductions.

1. Buy a New or Used SUV, Crossover Vehicle, or Van

Let's say that on or before December 31, 2019, you or your corporation buys and places in service a *new or used* SUV or crossover vehicle that the manufacturer classifies as a truck and that has a GVWR of 6,001 pounds or more. This newly purchased vehicle can qualify for one or more of the following four big benefits:

1. Bonus depreciation of 100 percent (thanks to the TCJA)
2. Select Sec6tion 179 expensing of up to $25,500
3. MACRS depreciation using the five-year table
4. No luxury limits on vehicle depreciation deductions

Example. On or before December 31, 2019, you buy and place in service a qualifying used $50,000 SUV for which you can claim 90 percent business use. Your business cost is $45,000 (90 percent x $50,000). Your maximum write-off for 2019 is $45,000.

2. Buy a New or Used Pickup

If you or your corporation buys and places in service a qualifying pickup truck (new or used) on or before December 31, 2019, then this newly purchased vehicle can qualify for one or more of the following four big benefits:

1. Bonus depreciation of up to 100 percent
2. Section 179 expensing of up to $1,020,000
3. MACRS depreciation using the five-year table
4. No luxury limits on vehicle depreciation deductions

To qualify for full Section 179 expensing, the pickup truck must have

- a GVWR of more than 6,000 pounds, and
- a cargo area (commonly called a “bed”) of at least six feet in interior length that is not easily accessible from the passenger compartment.

Short bed. If the pickup truck passes the more-than-6,000-pound-GVWR test but fails the bed-length test, tax law classifies it as an SUV. That’s not bad. The vehicle is still eligible for either expensing of up to the $25,500 SUV expensing limit or 100 percent bonus depreciation.