NFIB

2019 ESSENTIAL GUIDE TO TAXES

Overview

2019 Tax Guide

The New Tax Landscape

NFIB members have named taxes among their top concerns and priorities throughout the organization's 75-year history. Now, with enactment of the Tax Cuts and Jobs Act (TCJA), small businesses are seeing significant changes in how they calculate those taxes. NFIB and our members have been on the front lines in pressing for small business tax relief.

From on-the-ground lobbying of lawmakers to engaging some 300,000 grassroots members across the country, NFIB used every tool available to advocate for tax relief. Lobbyists from NFIB attended meetings and roundtables with House and Senate members in Washington, D.C., and in their home states, educating lawmakers about how their votes could help small business owners. NFIB members testified before Congress and wrote to legislators, explaining their interests and needs.

For small businesses, the centerpiece of the new law is the Small Business Deduction, which allows small businesses organized as pass-through entities—an S-Corporation, LLC, sole proprietorship, or partnership—to take a 20 percent deduction on their business income, says Jon Kurrle, NFIB's VP of Federal Government Relations. "That's a real game-changer compared with the taxes they had been paying," he says. The nonpartisan congressional Joint Committee on Taxation estimates that the provision will save small businesses $414 billion in the coming decade.

Other changes to the tax code, including reducing individual tax rates, broadening brackets, and decreasing the number of filers subject to the alternative minimum tax, also advanced NFIB's goal of reducing taxes for small business.

Over three-quarters of small business owners now believe the current business climate is heading in a positive direction, according to NFIB's Research Center, which conducted a survey from a random sample of 20,000 members asked about the TCJA between February and April 2018.

Next are questions commonly asked by small business owners about the TCJA.

Q: What is the Small Business Deduction, and why is it so important?

A: The TCJA added Section 199A to the Internal Revenue Code. Small businesses organized as pass-through entities may deduct up to 20 percent of qualified business income from an S-Corporation, LLC, proprietorship, or partnership. This deduction is in addition to lower individual tax rates and to the deductions generally available to individual taxpayers.

"Under the TCJA's new Section 199A, I now qualify for a 20 percent deduction on my pass-through income," says NFIB member David Cranston Jr. "In real terms, this means I will be able to keep between $1,200 and $2,500 a quarter in my business that I would otherwise have paid in taxes. The ability to keep $5,000 to $10,000 a year in my company is a big deal to a small business owner like me."

During his testimony before the U.S. Senate Committee on Finance in April 2018, Cranston noted that the savings put him "in a better position to take advantage of opportunities" and "in a better financial position to self-fund a new product."

Q: What is "qualified business income"?

A: According to the IRS, qualified business income generally refers to taxable income from a qualified pass-through business, including income from S-Corporations, sole proprietorships, partnerships, and certain trusts, that is included or allowed in determining your taxable income for the year.

It does not include any amount paid by an S-Corporation, LLC, proprietorship, or partnership that is treated as reasonable compensation for the taxpayer, such as investment items such as capital gains, losses, or dividends; interest income not properly allocable to a trade or business; wage income; income that is not effectively connected with the conduct of business within the United States; certain commodities transactions; or foreign currency gains or losses.

Surveys indicate NFIB members reacted to the tax reform with plans to increase employee pay, provide more benefits, and invest to expand their businesses. In the NFIB TCJA survey, almost half of small business owners who expect to pay less in taxes plan to increase business investments with their tax savings, while 44 percent plan to increase employee compensation. More than one in four plan to hire an additional employee.

NFIB member Dennis Sollmann, founder and CFO of Sollmann Electric Co. in Sidney, Ohio, says the new law means "more money for raises, bonuses, and benefits for our employees. Also, more money in our pockets for the long, stressful hours worked."

"The previous tax rates were so high that they choked our ability to add the equipment and facility expansion needed to support the rapid growth we are experiencing."

—NFIB member Jeff Adee, president of HeadHunter Bow Strings, Milton, Wisconsin

Q: Who is eligible for the Small Business Deduction under Section 199A?
A: Owners of all pass-through businesses are eligible, regardless of industry, until they earn up to $157,500 in qualified business income for an individual or $315,000 in qualified taxable income for married couples filing jointly for tax year 2018. For tax year 2019, these thresholds will increase to $160,700 for an individual and $321,400 for married couples filing jointly.

An exclusion for a specified service trade or business (SSTB) phases in above these initial thresholds. The deduction phases out completely for owners of such trades or businesses who earn more than $207,500 for an individual or $415,000 for married couples filing jointly in qualified taxable income for tax year 2018. For tax year 2019, these phase-out amounts increase to $210,700 for an individual and $421,400 for married couples filing jointly.

Small businesses organized as pass-through entities may deduct up to 20 percent of qualified business income from an S-Corporation, LLC, proprietorship, or partnership.

Q: What are the instructions for calculating the Small Business Deduction?
A: The IRS recently released its revised Form 1040 and instructions for tax year 2018. The IRS provides a worksheet to calculate the Small Business Deduction on Form 1040's line 9. Generally, after calculating the owner's net income earned from the business, multiply this net income by 20 percent.

Q: How did the alternative minimum tax (AMT) change?
A: The TCJA significantly increased the income level that would subject taxpayers to the AMT, meaning that far fewer small businesses will trigger the provision. The income level that triggers phaseout of the AMT exemption increased dramatically, from $120,700 to $500,000 for individual filers, and from $160,900 to $1 million for married couples filing jointly for tax year 2018. The corporate AMT is repealed.

The AMT was created in 1969 to prevent a very small number of wealthy taxpayers from using deductions and credits to avoid paying any federal income taxes. "Over time, the provision has grown beyond its intended purpose to ensnare a lot of small business owners," Kurrle says. "Bringing them out from under AMT liability is huge."

Q: What other provisions should small business owners be aware of?
A: Other elements of the new federal tax law that are important to small business owners include:

- Doubling the amount of an estate's value excluded from federal taxation.
- Doubling the standard deduction for taxpayers.
- Lowering individual income tax rates and broadening brackets.
- Doubling small business expensing (Section 179).
- Expanding the use of cash accounting.
- Indexing many of the provisions to inflation, preserving their value over time.

NFIB's Efforts to Make Tax Relief Permanent

Certain provisions in the TCJA are scheduled to expire at the end of 2025 absent congressional action, but NFIB is working to make these tax cuts permanent.

Holly Wade, NFIB's Director of Research and Policy Analysis, testified before the House Committee on Energy and Commerce in 2018, explaining that the expiration of parts of the law creates "looming uncertainties" for small business owners.

In June 2018, more than 300 NFIB members attended the D.C. Fly-In event, visiting Capitol Hill to encourage their legislators to make the Small Business Deduction and other provisions of tax relief permanent.

Extending the small business provisions would help business owners with their long-term planning. More than 90 percent of small business owners support permanently extending these provisions, according to a recent NFIB member ballot.

A bipartisan bill—the Main Street Tax Certainty Act, H.R. 216—was introduced this year to make the Small Business Deduction permanent. NFIB will continue to press the U.S. House of Representatives and Senate to remove the 2025 expiration dates on all small business provisions and make them permanent.

"For the smallest of the small businesses, taking time away is not an easy thing," says Jon Kurrle, NFIB's VP of Federal Government Relations. Bipartisan efforts to make these provisions permanent "underscore the importance of making that effort and show the results that come from that effort."

TAKE ACTION FOR PERMANENT TAX RELIEF

Visit https://www.nfib.com/advocacy/now/ to sign up for alerts and to ask your legislators to permanently extend the small business provisions of the new tax law, or download the NFIB Engage app—now available on Google Play and the Apple Store.

What NFIB Research Says

NFIB's Research Center found that over half of small business owners expect to pay less in federal income taxes in 2018. Seven percent expect to pay more and 37 percent expect to pay about the same.

"The previous tax rates were so high that they choked our ability to add the equipment and facility expansion needed to support the rapid growth we are experiencing," says NFIB member Jeff Adee, president of HeadHunter Bow Strings in Milton, Wisconsin. "Now we have more cash available to continue to grow and add jobs and better benefits."

NFIB was committed to helping these reforms become law, knowing such an opportunity might not come again for a long time. "It's been over three decades since the last major tax revisions package went through," Kurrle says. "Our members were saying this was a critical issue for them, and this doesn't happen every day. Tax relief provides an opportunity to do all the things small businesses want to do, which is grow, hire, increase benefits where they can, and become fundamentally more successful with each passing day."

NFIB's Small Business Optimism Index posted record highs since federal tax reform was enacted in December 2017. In fact, August's optimism index soared to 108.8, a new record in the survey's 45-year history, topping the July 1983 high-water mark. These record-breaking figures are driven by small business owners executing on the plans they have put in place due to significant changes in the nation's economic policy. The report also set new records in terms of owners reporting job creation plans and job openings.

Small business accounts for two-thirds of net new jobs and almost half of the nation's private non-farm gross domestic product, so growing confidence of small business owners is good news for the U.S. economy.

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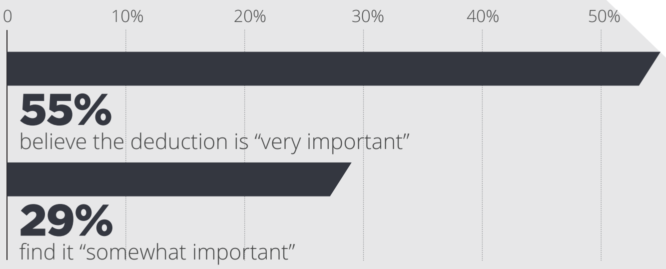
—NFIB member David Cranston Jr.

What Is the 20 Percent Small Business Deduction?

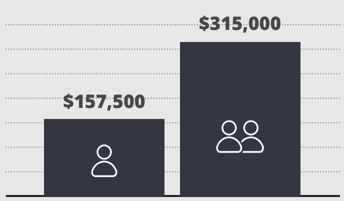
One of the key provisions in the Tax Cuts and Jobs Act, the NFIB-backed Small Business Deduction means big savings for small business owners.

Perhaps one of the most notable provisions of the Tax Cuts and Jobs Act is the creation of Section 199A, which allows for a 20 percent Small Business Deduction for small businesses that are organized as pass-throughs. Here is a breakdown of what the Small Business Deduction is, who benefits, and how it may help your business.

The majority of small business owners who are familiar with the 20 percent deduction say it's crucial for their companies.



WHO BENEFITS?
Owners of pass-through entities, regardless of industry, are eligible for the full 20 percent deduction up to $157,500 individual/$315,000 joint in taxable income.



If a small business owner's income exceeds the above thresholds:

1. **For an owner of a specified service trade or business (SSTB),** the deduction phases out from $157,500 to $207,500 for individual filers and $315,000 to $415,000 for joint filers. The deduction fully phases out at $207,500 individual/$415,000 joint filers.

2. **For an owner in any other business type,** the deduction is limited to 50 percent of W-2 wages paid by the business and the unadjusted basis of certain property used by the business.

WHAT IS THE DEDUCTION?
The new Section 199A allows small businesses that are organized as pass-throughs to deduct 20 percent of their qualified business income from an S-Corporation, LLC, sole proprietorship, or partnership.

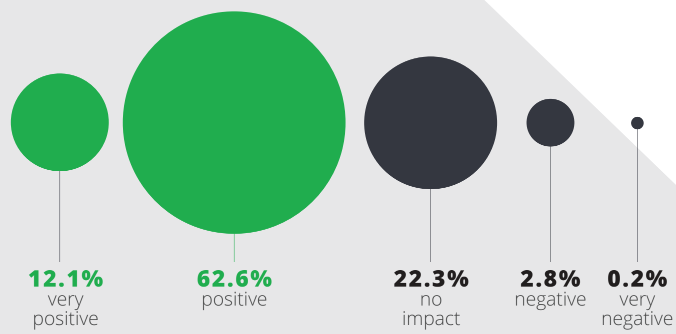
What is qualified business income?

Taxable income generated from a qualified pass-through business. This means the net amount of qualified items of income, gain, deduction, and loss with respect to the trade or business of the taxpayer.

What doesn't qualify as business income?

Capital gains and losses, reasonable compensation, certain dividends, and interest income.

WHAT SMALL BUSINESSES SAY
Most owners think tax reform will have a positive effect on their business.



"Tax reform is twofold for our small business because the 20 percent deduction allows us greater revenues without additional tax liabilities, and in turn we will spend that extra revenue locally. This tax reform helps our customers also, and the business climate for contractors, suppliers, and vendors like us is just off-the-charts positive right now!"

—NFIB member Angela Gibson, Utility Trench Technology, Spokane, Washington

Small Business Deductions: What You Need to Know for Filing Taxes in 2018

The Tax Cuts and Jobs Act revised existing deductions and introduced new deductions available to small business owners.

Courtney Titus Brooks, NFIB's Federal Government Relations Manager, and NFIB member Dewey Martin, a certified public accountant and a Maine Leadership Council member, break down deductions to consider as you file your year-end taxes. Contact your tax adviser to determine if your business can take advantage of these deductions.

Small Business Deduction

For the 2018 tax filing season, there's now an extra line on the 1040 tax form (line 9) for the biggest change related to tax relief: a 20 percent deduction on qualified business income, also known as the Small Business Deduction or Section 199A.

This deduction is available to businesses organized as S-Corporations, sole proprietorships, LLCs, and partnerships. (See page 7 for more information on the Small Business Deduction.)

Standard Deduction

The Small Business Deduction doesn't have to be itemized. Talk to your tax adviser to determine if you can simultaneously claim this deduction and the standard deduction, which nearly doubled to $12,000 for individuals and $24,000 for joint filers.

Bonus Depreciation

The new 100 percent depreciation deduction allows businesses to write off most depreciable business assets in the year the business places them in service.

The deduction generally applies to assets with a recovery period of 20 years or less and certain other property, such as machinery, equipment, computers, appliances, furniture, and used qualified property with certain restrictions.

The deduction is retroactive, applying to qualifying property acquired and placed in service after Sept. 27, 2017. The 100 percent allowance generally decreases by 20 percent per year in taxable years beginning after 2022 and expires Jan. 1, 2027.

Check to make sure your state has conformed to bonus depreciation, Martin says. For example, in Maine, instead of claiming bonus depreciation, taxpayers can receive an offsetting credit for certain large purchases, he says.

Meals and Entertainment Changes

The Tax Cuts and Jobs Act (TCJA) eliminated the deduction for expenses related to entertainment, amusement, or recreation. However, under the new law, business owners can continue to deduct 50 percent of the cost of business meals if the business owner (or an employee of the business owner) is present and the food or beverages are not considered lavish or extravagant. Some restrictions apply, so talk to your tax adviser.

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Home Office Deduction
The home office deduction was not repealed for small business owners. Rather, the TCJA repealed the employee itemized deduction for unreimbursed miscellaneous expenses, like home office expenses. The deduction for home office expenses of a small business owner remains unaffected by any changes in the bill.

Other Changes
The TCJA made changes to several other sections that are worth asking your tax adviser about. These include changes to the Section 179 expensing deduction, state and local tax deductibility, the alternative minimum tax, several itemized deductions, the deduction of medical expenses, and a paid family and medical leave tax credit.

A tax professional can help you navigate the changing landscape so that your small business can reap as many benefits this year as possible.

Your Quarterly Tax Planning Checklist

Tax planning and preparation is a year-round endeavor. Here's a list of deadlines to help you stay on top of your taxes.

As the saying goes, the early bird catches the worm—and when it comes to tax planning, the sooner you get started the better. This saying is especially timely due to recent changes in tax policy. Consider these quarterly deadlines to run your business in the most tax-efficient way possible, and talk with your tax adviser regarding your situation.

What To Do In 2019

Q1

- [ ] Make your fourth-quarter estimated tax payment, due Jan. 15, 2019.
- [ ] Mail out Form W-2 to employees and Form 1099 to non-employees and contractors. Forms must be delivered to both employees/contractors and the IRS/SSA by Jan. 31.
- [ ] File forms 1099 with the IRS and W-2 with the Social Security Administration and the employee by Jan. 31, 2019.
- [ ] The deadline for partnership, S-Corporation or multi-member LLC tax returns is March 15. (C-Corporation tax returns are now due by April 15.)
- [ ] File Form 2553 with the IRS if you intend to convert your business to an S-Corporation—all S-Corporation elections must be made by March 15.

Q2

- [ ] Your first-quarter payment for tax year 2019 is due April 15.
- [ ] If your business is a sole proprietorship or single-member LLC, file your 2018 taxes. The deadline is also April 15. Remember to review line 9, the Small Business Deduction.
- [ ] If your payroll tax liability is $50,000 or less during the look-back period, you must deposit taxes by the 15th of the month following the month of the liability. For example, paychecks prepared in April are due May 15. If your total tax liability is greater than $50,000, taxes must be deposited on a semiweekly schedule.
- [ ] Your second-quarter payment for tax year 2019 is due June 17.

Q3

- [ ] Your third-quarter payment is due Sept. 15.

Q4

- [ ] Consider an end-of-year meeting with your tax professional to discuss how you can still make changes to reduce your 2019 tax bill.
- [ ] Calculate your income and quarterly estimated tax payments year-to-date. If you think you've overpaid or underpaid, consider increasing or decreasing your forthcoming fourth-quarter payment, due Jan. 15, 2020.
- [ ] Did you give? You can deduct up to $25 per person, per year, for business-related gifts given to clients.

 Note that the due dates for corporate and partnership returns shown above apply to businesses with December year-ends.