

WMB2

Tax planning

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Basic Business Deductions

- Automobile (actual or mileage)
2018 - 54.5 cents, 2019 – 58 cents
- Dues and subscriptions
- Internet expenses
- Instrument repair and maintenance
- Depreciation on equipment
- Continuing education & conferences
- Business & travel meals, no entertainment expenses
- Travel and lodging
- Supplies and office expenses

Basic Business Deductions

- License and fees
- Insurance on equipment
- Health insurance
- Pension and profit sharing
- Maximum \$55,000 in 2018, \$56,000 in 2019
- Gifts - \$25 limit
- Telephone and answering service
- Legal and accounting fees
- Technique research
- Home office

Office in the Home

- Exclusive use
- Regularly meet clients, detached structure, or primary place of business



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Questions

- What are the three most important things to remember for successful tax planning?



Answer

- Documentation
- Documentation
- Documentation



Documentation

- Auto mileage records
- Business meals records
 - » Business purpose
 - » Time, date, location
 - » Person entertained
- Organized records of all other expenses
- Keep records for at least 5 years

Business deductions – how deductions are taken

- Self-employed (or partners)
 - » Deductions taken on Schedule C or Form 1065
- Employees
 - » Deductions taken on Schedule A and subject to 2% of AGI limit. Deductions from 2018-2025 are disallowed at the federal level.

Employee, Contractor or Corporation?

- Employee benefits – payroll tax, reimbursed business expenses, retirement plan
- Deduction of business expenses
- Corporation expenses: business filings, separate tax filing, payroll processing, annual minimum Franchise tax fees

199A Deduction

Income from:

- Sole Proprietorships
- Partnerships
- S Corporations
- No C Corporations

199A Deduction

Tentative 199A deduction:

- $20\% \times$ Qualified Business Income (QBI) +
- $20\% \times$ Qualified REIT Div. +
- $20\% \times$ Qualified Publicly Traded Partnership Income (QPTPI)

The 199A deduction is the lesser of a) the tentative 199A deduction(above) or b) 20% of Taxable Income minus net capital gain

Qualified Business Income

- Must be from a Trade or Business
- Ordinary income (Sch C, K-1, etc)
- Cannot be capital gain
- Cannot be a dividend(except REIT Div)
- Can be negative
- No W-2 income

Specified Service Trade or Businesses (SSTB)

- Performing arts is “Specified Service Trade or Business”. Income from “SSTB” is not eligible for the deduction if taxable income is at or above the phaseout ceiling.
- The performance of services by individuals who participate in the creation of performing arts.
- Specifically included: Actors, singers, musicians, entertainers, directors and similar professionals who participate in the creation of performing arts.
- Specifically not included: Maintenance and operation of equipment and facilities

Phaseout - SSTB

- 20% QUI deduction if TI is:
- $\leq \$315,000$ (MFJ) or
- $\leq \$157,000$ (other)
- No 199A deduction if TI:
- $\geq \$415,000$ (MFJ)
- $\geq \$207,500$ (other)
- Phase-out range: $\$100,000$ (MFJ),
 $\$50,000$ (other)

Deduction for all other businesses (non-SSTB)

- 50% of all W-2 wages paid by the business; or
- The sum of:
 - 25% of all W-2 wages paid by the business;
 - + 2.5% of the unadjusted basis of depreciable assets immediately after acquisition

Example 1

- A married couple filing jointly(MFJ)
- Taxpayer is a musician with \$100,000 W-2 income
- Spouse is a self-employed musician and has a net teaching income of \$34,000 after deductions.
- They have \$20,000 long-term capital gains

Example 1

Taxable Income:

W-2 income	\$100,000
Sch C income	34,000
Long-term Capital gains	20,000
AGI	154,000
Standard Deduction	(24,000)
Taxable Income	\$130,000

Example 1

- The Taxable income is below the threshold amount of \$315,000
- Tentative 199A deduction:
 $20\% \times 34,000 = 6,800$
- 20% of Taxable Income – Net Capital gain
 $20\% \times (130,000 - \$20,000) = 22,000$
- 199A deduction is \$6,800

Example 2

- A married couple filing jointly(MFJ)
- Taxpayer is a musician with \$50,000 W-2 income
- Spouse is a self-employed musician and has a net teaching income of \$34,000 after deductions.
- They have \$100,000 long-term capital gains

Example 2

Taxable Income:

W-2 income	\$50,000
Sch C income	34,000
Long-term Capital gains	100,000
AGI	184,000
Itemized Deduction	(64,000)
Taxable Income	\$120,000

Example 2

- The Taxable income is below the threshold amount of \$315,000
- Tentative 199A deduction:
 $20\% \times 34,000 = 6,800$
- 20% of Taxable Income – Net Capital gain
 $20\% \times (120,000 - \$100,000) = 4,000$
- 199A deduction is \$4,000



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