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Beth Blecker, RFC
bblecker@easternplanning.com

Matthew Blecker, CFP®, CFA, M.B.A.
mblecker@easternplanning.com

TCJA Offers 20% Tax Reduction
Some business Owners May Need to Make Changes

The TCJA offers a 20% tax reduction on Qualified Business Income (QBI) for taxation on only 80% of QBI. While limitations apply, this tax break is available to all business entities, except for C Corporations. Similarly, those small-business owners with taxable income over $415,000 (married filing jointly) and $207,500 (single filers) in a "specified service trade or business" (SSTB) do not qualify.

1. Proceed Cautiously
Whenever considering an income-transformation strategy it is wise to be careful, especially when planning to split business income into service and non-service areas. If you are considering such a strategy, which may be viewed as aggressive, be aware of IRS rulings and clarifications to see if you qualify for the QBI deduction.

2. Restructure Your Compensation Plan
Hiring more W-2 employees and reducing the number of independent contractors can decrease income, shifting it among multiple taxpayers. Further, gifting investment or business assets to others (such as family members) can lower taxable income.

3. Due for a Re-org?
Is your business structured to take full or partial advantage of the new tax code? It may be wise to convert LLC's and partnerships into C corporations (which may qualify for the lower corporate tax rate) or consider other entity types. Such potential transformations need to be carefully considered with a qualified tax professional or attorney to consider possible long-term ramifications.

4. Invest More in Your Business
For each dollar earned within the QBI limits a business owner may lose roughly 50 cents to income taxes. Therefore, consider the TCJA an opportunity to "split the cost" of business investment with the government. Now may be the time to hire additional staff or purchase new equipment, business real estate etc. Similarly, you can increase W-2 wages by making an S-election and pay wages, increase employee wages or purchase leased equipment and real estate.

25 Smith Street, Suite 304
Nanuet, NY 10954
845-627-8300

bblecker@easternplanning.com

800 Westchester Av, Suite 641N
Rye Brook, NY 10573
914-552-2718

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5. Establish a "Cash-Balance" Pension Plan
This may make sense for small, profitable businesses with stable cash flow. The contribution limit for cash balance plans (CBPs) could be close to $300,000 for those approaching retirement age, (i.e., in their 50s or 60s). However, there are annual costs with CBPs which may not be suitable for large businesses with numerous employees.

When it comes to maximizing the TCJA there's a lot more to learn than what we've covered here. The Eastern Planning team can work with your tax preparer to help lessen your tax liability. Please visit: www.easternplanning.com or contact: Susan@easternplanning.com / 845-627-8300.