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FEBRUARY 2018

Tax filing reminders

February 28 – Payers must file most other Forms 1099 (except certain Forms 1099-MISC due Jan. 31) with the IRS. (April 2 if filing electronically.)

March 1 – Farmers and fishermen who did not make 2017 estimated tax payments must file 2017 tax returns and pay taxes in full.

March 2 – Automatic extension deadline for employers and health care providers to provide Forms 1095-B and 1095-C to individuals.

March 15 – calendar-year S corporation and partnership income tax returns are due. Deadline for calendar-year corporations to elect S corporation status for 2018.

New 2018 capital expense rules

There are many provisions in the tax reform bill passed in late 2017 designed to benefit small business owners. There are also a variety of new tax tools affecting how small businesses account for deducting the cost of capital purchases under the new tax law. Here's what you need to know:

Tool #1: Section 179 deduction

The new law increases the amount of business property purchases that you can expense each year under Section 179 to \$1 million (from \$500,000 previously). Normally, spending on business property (machines, computers, vehicles, software, office equipment, etc.) is capitalized and depreciated so that the tax benefit is spread out slowly over several years. Section 179 allows you to get the tax break immediately in the year the property is placed into service.

Tips:

There is an eligibility phaseout for Section 179 that ensures it's only used by small businesses, but that was also raised to \$2.5 million (from \$2 million) by the new law. If you spend more than \$2.5 million on business property in total during the year, your ability to use the \$1 million Section 179 deduction is reduced dollar-for-dollar above that amount. Section 179 deductions can be used on both new and used equipment. You can now use Section 179 on property used to furnish lodging or in connection with furnishing lodging (such as rental real estate). It also includes improvements to nonresidential real estate assets such as roofs, heating and air conditioning, and alarm systems.

Tool #2: Bonus depreciation

Bonus depreciation limits (also known as first-year bonus depreciation) are also improved under the new law, but for a limited time. Bonus depreciation is similar to Section 179 and allows you to immediately expense capital purchases rather than depreciating them over several years.

Under the new law, first-year bonus depreciation increases to 100 percent of the qualified asset purchase price for the next five tax years (starting in 2018) and can now be applied to the expense of purchasing used property as well as new.

Tips:

Bonus depreciation is typically used on short-lived capital investments (with a 20-year or less useful life) such as machinery, equipment and software. Bonus depreciation had been only for purchases of new equipment, but can now be applied to used equipment as long as you place it into service at your business during the tax year. The allowable bonus depreciation starts to decline after 2022. It falls to 80 percent in 2023, 60 percent in 2024, 40 percent in 2025 and 20 percent in 2026.

Tips for when your employees are family members

Hire for the right reasons. Make your hiring and firing decisions based on the skill sets needed to keep your business operating effectively. Hiring your son because he's struggling to find a job is *not* a good business son for bringing staff on board.

Avoid nepotism. Nepotism is our human habit of treating family members more favorably than others. Keep in mind that your non-family employees will be hypersensitive to any favoritism you show to relatives.

If you have to fire, keep it professional. Set a formal termination meeting. You may want to involve a direct supervisor or a human resources professional to ensure that your company is appropriately represented and to prevent the conversation from lapsing into emotional arguments.

Taxes and virtual currencies: What you need to know

The IRS is paying close attention

If you decide to use or hold virtual currencies, carefully report and pay tax on your transactions. Act as if you're going to be audited, because if you don't, you just might be!

And, if you sell Bitcoin, you have to pay tax on your gain using the cost (basis) of when you received it. The IRS has said that if Bitcoin is held as a capital asset, like a stock or a bond, then you would pay capital gains tax. Otherwise, if it is not held as a capital asset (for example if it is treated as inventory that you intend to sell to customers), it would be taxed as ordinary income.

Be aware of the risk

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This general information should not be acted upon without first determining its application to your specific situation.
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