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Two Top Tax Breaks for Your Business
Combine Section 179 and bonus depreciation

If you need to purchase equipment for your small business this year, you may be in for a treat. Generally, you can qualify for sizeable current deductions, instead of recouping the costs through depreciation deductions over an extended period of time. Furthermore, the Tax Cuts and Jobs Act (TCJA) has enhanced these tax benefits for business owners.

The two key tax breaks for this purpose are the Section 179 allowance and the bonus depreciation provision. Best of all, you can combine the two in the same tax year.

1. Section 179 allowance: Under Section 179 of the tax code, a business may "expense" (i.e., currently deduct) the cost of new or used business property placed in service during the year, up to a specified limit. The maximum deduction has increased in fits and starts in recent years.

Now the TCJA has doubled the maximum $500,000 allowance to $1 million, indexed for inflation. The maximum for property placed in service in 2019 is $1,020,000.

For these purposes, "qualified property" includes business assets with a cost recovery period of 20 years or less, depreciable software that is not amortized over 15 years, qualified leasehold improvements and water utility property. However be aware of a couple of limitations:

- The Section 179 deduction cannot exceed your **net taxable income** from your business activities. For example, if your firm generates $800,000 a year in net taxable income and acquires $900,000 of qualified business property, the deduction is limited to $800,000.

- The maximum Section 179 allowance is reduced on a dollar-for-dollar basis above a specified threshold. Under the TCJA, the threshold has been increased from $2 million to $2.5 million, subject to inflation indexing. The threshold for property placed in service in 2019 is $2,550,000.

2. Bonus depreciation: To further sweeten the pot, Congress added the bonus depreciation deduction years ago, starting with a 30% deduction. The bonus depreciation deduction has also been adjusted several times. Finally, the TCJA doubled the deduction from 50% to 100%, effective for property placed in service after September 27, 2017.

In addition, the TCJA expanded the bonus depreciation deduction to qualified used property. Previously, it was restricted to new property.

However, after 2022 the 100% bonus depreciation deduction is scheduled to be phased out, as follows:

- 80% in 2023
- 60% in 2024
- 40% in 2025
- 20% in 2026

After 2026, bonus depreciation will no longer be available, unless Congress renews or extends this tax break.

But that is not all. If there is still any amount left over after the Section 179 and bonus depreciation deductions have been claimed, the remainder may be written off under the **regular depreciation rules**.

Note that your small business may **elect out of** bonus depreciation if it suits its needs. For instance, if a business is having a low-income year, it might choose to defer tax benefits until future years when it expects to have more taxable income to offset.

Practical advice: Consult with your professional tax advisor about your situation. With guidance, your business can maximize the available tax breaks on the books.

Seeking Tax Shelter for a Vacation Home
How to enjoy big tax benefits

The summer rental season is about to kick off. Do you own a getaway in a resort area? If you rent out the place when your family is not using it, you can generally claim deductions to reduce the taxable income. In fact, you might even qualify for a tax loss on the deal, but you must be careful to observe the complex tax rules in this area.

Background: Typically, a vacation home owner can deduct the costs attributable to the rental to offset the income you receive from tenants, including mortgage interest, property taxes, repairs, utilities, insurance, etc. But there is a limit to this tax generosity. Under the passive activity loss rules, you can only use losses from a rental activity to offset losses from other passive activities.

However, if you are an **active participant** in the rental (e.g., you make management decisions and arrange repairs), the tax consequences for a loss depend on your income level and the level of your family's personal use. There are three basic rules to follow.

1. If your income does not exceed $100,000, you can use the loss to shelter up to $25,000 of your salary and other income as long as you keep your personal use to a minimum.

Your family's personal use cannot exceed the greater of 14 days or 10% of the rental time. On the downside, when you keep your personal use below these limits, you lose a portion of your mortgage interest deduction (the portion allocable to your personal use).

2. If your income exceeds $150,000, the tax law says you cannot qualify for the $25,000 loss write-off. Your total rental deductions basically cannot exceed your rental income, regardless of the amount of your personal use. However, if your personal use is greater than 14 days or 10%, you are entitled to an additional deduction: the portion of your mortgage interest you do not claim as a rental expense.

3. If your income is between $100,000 and $150,000, things are not as clear-cut. The $25,000 loss write-off is gradually phased out in this income range. The closer you are to the $150,000 level, the more likely it is you will get little in the way of a loss write-off. So you will probably want to increase your personal use—the same strategy as those who have income above $150,000. This way, you will be able to deduct more of your mortgage interest.

Conversely, if you are closer to the $100,000 level, most of your loss write-off will be intact. Therefore, try to keep your personal use below the 14-day/10% mark, if possible. **Note:** The time you spend fixing up the place and preparing it for rental use does not count as "personal use" even if the rest of the family just tags along to have fun.

Caution: The tax rules in this area are extremely tricky and it is easy to slip up. Do not hesitate to seek professional assistance with respect to vacation home rentals.

Spotlight on the "Other" Health Care Law
Overview of key COBRA provisions

The controversial Affordable Care Act (ACA) remains in the headlines almost a decade after it was enacted. But a different and older federal health care law that attracts significantly less attention can also have a major impact. Under the **Consolidated Omnibus Budget Reconciliation Act**—commonly known as COBRA, for short—an employer with a group health insurance plan may be required to offer **continued coverage** to a departing employee.

It is important for both employers and employees to have a basic understanding of how COBRA works.

Background: COBRA applies to private employers with 20 or more employees in the preceding calendar year. In addition, some states have enacted comparable laws for employers with fewer than 20 employees.

Generally, COBRA coverage is also extended to a covered employee's spouse, dependent children and even an ex-spouse if group coverage would be lost due to a qualifying event.

To be eligible, the covered employee must have been enrolled in the employer's health plan when he or she worked there and the plan must still be an active one.

Although employers are required to notify employees of their COBRA rights and to offer continued coverage, the health insurance cost may be shifted to the departing employee (plus a 2% administrative fee). Continuation of health insurance coverage may be required for one of the following events.

- Termination of the employee's employment for any reason other than gross misconduct;
- Reduction in the number of hours of employment;
- If the covered employee becomes entitled to Medicare;
- Divorce or legal separation of the spouse from the covered employee;
- Death of the covered employee; or
- Loss of dependent child status under the plan.

COBRA requires continuation coverage to be extended for as long as 18 or 36 months. The length of time depends on the type of qualifying event creating the COBRA rights. **Note:** A plan may provide for a longer period of coverage than the maximum period required by law.

When the qualifying event is the covered employee's termination of employment or a reduction in hours of employment, the employee is entitled to 18 months of coverage. However, if the qualifying event is termination of employment or reduction of the employee's hours AND the employee became entitled to Medicare less than 18 months before the qualifying event, COBRA coverage for a spouse and dependents can last for 36 months after the time the employee is eligible for Medicare. For certain other qualifying events, coverage must be provided for the maximum 36-month period.

Finally, if a qualified beneficiary is disabled and meets certain other requirements, a qualified beneficiary receiving continuation coverage may be entitled to coverage for 29 months.

Reminder: The ACA is important, but do not forget about COBRA either. As stated above, employers must meet notification requirements under COBRA. Employers should coordinate these activities with assistance from their professional business advisers.

Is Laughter the Best Work Medicine?
Seven reasons to lighten the load

Work is serious business, of course, but that does not mean there is no time for levity. In fact, if your workplace environment is not conducive to laughter or, even worse, the atmosphere is downright oppressive, the daily grind can become excruciating. Sooner or later, your best workers will leave for greener pastures.

Following are seven ways that laughter at work can be beneficial.

1. Reduced stress: In this competitive age for many businesses, employees are often on edge. An amusing encounter with a customer or client or interplay between co-workers can go a long way toward relieving some of the stress. Even office pranks can brighten the day as long as they are not mean-spirited. With less stress, most workers will perform better.

2. Positive work environment: Do your employees dread coming to work? Remove the cloud hanging over their heads by encouraging laughter and smiling. Your staff is more likely to be successful if they can laugh in each other's presence and with each other (but not at each other).

3. Team spirit: Laughter often draws workers from different backgrounds together. It is a common ground for building and cementing relationships. When workers share laughter and other experiences, they might also share a commitment to your business goals and objectives.

4. Energy: Employees who have been working hard and putting in long hours need to recharge their batteries. Just bringing a smile to their lips or causing a momentary chuckle can help. On the other hand, a pervasive sense of doom and gloom can sap the energy from a workplace. Which mood do you prefer?

5. Less tension: It is difficult for employees to perform when you can cut the tension with a knife. In these instances, some workers will make costly errors. But laughter can ease the tension and calm things down. When the team is more relaxed and the pressure is off, they may make fewer mistakes.

6. Creativity: Laughter can stimulate creative thinking because you are able to brainstorm free of stress. It can lead to innovation that may have been bottled up by anxiety. Conversely, if you are not allowed to express yourself through laughter, creativity may be stifled.

7. Happiness: Finally, employees are simply happier in a laughter-filled workplace. If you do not like coming to work, you are probably not going to do a good job. However, if you are looking forward to a few laughs during the workday, you can better apply yourself to the tasks at hand. Happiness breeds productivity.

In summary: Laughter is contagious and so are the results. Share these thoughts with your staff and business associates. You may find yourself laughing all the way to the bank.

Foreign Travel Snafu for Tax Debtors

The IRS recently issued a stern warning to some taxpayers who plan to travel internationally: Pay off your tax debt or your passport may be revoked.

Under a little-noticed 2015 law, the IRS was granted the authority to notify the State Department about taxpayers who have a **"seriously delinquent tax debt."** This is defined as a debt of $50,000 or more (indexed to $52,000 in 2019). In that case, the State Department can refuse to issue a new passport, renew an old one and even revoke an existing passport or limit travel outside the country.

But you can resolve matters by **settling the debt** with the IRS in various ways. Obtain more information from your tax advisor.

Facts and Figures

Timely points of particular interest

Thoroughly Modern IRS—The IRS has announced a new six-year plan to modernize its IT systems and make other critical improvements in the nation's tax system. The plan outlines a comprehensive strategy for improving services for both taxpayers and tax professionals alike, while protecting **taxpayer data**. This effort culminates an extensive review and collaboration with outside experts and stakeholders in the tax community.

Business Meetings—How can you stand out at a business meeting? By saying the right thing at the right time in the right way. Here are four helpful hints. **(1)** Avoid stating the obvious. No one wants to hear it. **(2)** Take notes. This will help crystalize your thoughts. **(3)** Speak slowly. Do not rush through your speech. **(4)** Focus on a specific issue. The worst thing you can do is ramble on indefinitely.