BUSINESS

Businesses, landlords may benefit from new tax law

There are many highly palatable advantages to the 2018 tax law, but businesses may find one provision difficult to swallow: The IRS is no longer serving up a 50 percent deduction for "directly related and associated entertainment."

PHILLIP GOLDSTEIN

That means there will be no more write-offs if you take a prospect or client to dinner, a show or a ball game. Businesses also need to know that their ability to deduct all the interest they pay on loans is limited to the sum of business interest income plus 30 percent of the adjusted taxable income of the taxpayer for the taxable year. The amount of the disallowed interest is carried forward indefinitely. Also exempt from these disallowances are businesses with average gross receipts of $25 million or less, electing real property trade or business and several other types of businesses.

But there are a lot of good things this law has to offer. Let's dig in.

There's a hefty 20% deduction for pass-through business income for sole proprietorships, partnerships and various pass-through entities. "Pass-through" income is business income that is taxed once at the individual rates of the business owner, instead of through the corporate tax structure. This kind of income is reported on an individual's 1040 returns, hence "pass through." Accountants, lawyers, financial advisers and many other service businesses won't be able to take the deduction if their income exceeds a certain threshold.

A For Rent sign in the City of Newburgh. Landlords will benefit from the new tax law with a sizable deduction. [KELLY MARSH/FOR THE TIMES HERALD-RECORD FILE PHOTO]

For landlords, this is an outstanding provision. The vast majority of residential landlords own their rental property as sole proprietors (they individually own their properties), limited liability companies (LLCs), and partnerships. If the rental activity qualifies as a business for tax purposes, as most do, landlords may be eligible to deduct an amount equal to 20 percent of their net taxable income. This is in addition to all other rental-related deductions. That means landlords who qualify for this deduction could effectively be taxed on only 80 percent of taxable income. Their total taxable income for the year from all sources after deductions must be below $315,000 if married filing jointly, or $157,500 if single or else additional computational factors which may limit the deductions come into play. It could possibly be a tax benefit thus to file married filing separately.

And here's more good news for landlords— they will be able to continue fully deducting their mortgage interest.

The new tax act effectively increases "the Section 179 deduction" that lets companies write off many types of equipment purchases up front rather than depreciate them over a period of years. Companies will now be able to deduct $1 million in purchases (up from the current level of $510,000). This is especially helpful for companies that can use the deduction to help finance the purchase of equipment ranging from computers and office chairs to vehicles and manufacturing machinery.

Depreciation rules for larger equipment and property purchases are also more generous. Currently, many investments in equipment or real estate must be depreciated over a period ranging from 5 years to decades, depending on what kind of property it is. The new tax law generally allows for full up-front deductions of purchases each year for the next five years, subject to limitations on some purchases.

The new tax laws are only beneficial if you understand and take advantage of them. Be sure to talk to your tax advisor to make sure you get a big helping of all this new law has to offer.

—Phillip Goldstein is managing partner of Goldstein Lieberman & Company LLC, a full-service certified public accounting and business advisory firm that serves closely held businesses and their owners in New York and New Jersey. For more information, contact Goldstein at 800-839-5767 or philg@glcpas.com, or visit www.glcpas.com.