

This Month:

- 4th Quarter 2018 Due Dates
 - Expensing Assets Under the Tax Cuts and Jobs Act
- Are You Paying Yourself Correctly as a Shareholder of an S Corporation?

4th Quarter 2018 Due Dates

October 1:

- ◇ *Businesses:* Deadline for establishing a new SIMPLE retirement plan for 2018; Deadline to provide written notice to employees related to Qualified Small Employer Health Reimbursement Arrangement (QSEHRA) plans that begin on January 1, 2019

October 15:

- ◇ *Individuals:* 2017 return due (Form 1040) if on extension
- ◇ *Calendar-year C corporations:* 2017 return due (Form 1120) if on extension

October 31:

- ◇ *Employers:* File Form 941 for 3rd quarter 2018

During November:

- ◇ *Employers:* Request Form W-4s from employees whose withholding allowances will be different in 2019

December 17:

- ◇ *Calendar-year C Corporations:* 4th installment of 2018 estimated tax due

Expensing Assets Under the Tax Cuts and Jobs Act

Because of the Tax Cuts and Jobs Act (TCJA), taxpayers can now deduct 100% of the cost of most new or used tangible property, other than buildings, acquired and placed in service after Sept 27, 2017. The new law also made Section 179 expensing more favorable by allowing taxpayers to immediately deduct the entire cost of qualified property on an asset-by-asset basis up to a maximum of \$520,000 annually. This limit is reduced by one dollar for every dollar that the costs of all section 179 property exceeds \$2,070,00 for assets placed in service beginning in 2018.

The Act also consolidates various leasehold improvement categories into one category - qualified improvement property. Qualified improvement property consists of improvements made to the interior of nonresidential real property after the building was placed into service. Qualified improvement property is also eligible for Section 179 expensing.

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Should you take 100% bonus depreciation or select Section 179 expensing? It depends! Here are several considerations to keep in mind when deciding between Section 179 expensing and 100% bonus depreciation:

- Neither bonus depreciation nor Section 179 expensing affect Alternative Minimum Tax (AMT).
- Bonus depreciation must be elected out of by asset class; Section 179 expensing is elected on an asset by asset basis.
- Section 179 expensing is limited to taxable income; bonus depreciation is not limited by taxable income.
- Bonus depreciation can create a Net Operating Loss (NOL), which can be carried back and possibly generate a refund from a prior tax year.
- Section 179 expensing can control taxable income to maximize the new 20% Qualified Business Income (QBI) deduction or limit the new \$500,000 business loss limitation.

Selecting between 100% bonus depreciation and Section 179 expensing will not only affect your taxes in the current year but also in a future year when the asset is sold. Contact us to discuss how this can impact you!

Are You Paying Yourself Correctly as a Shareholder of an S Corporation?

If you operate your business as an S corporation and pay yourself on a 1099-MISC, then you're possibly in violation of tax law, which can subject you to substantial tax liabilities and penalties.

The law requires you to pay yourself a salary for the work you do for the corporation. Your salary should be reasonable based upon your position, hours worked, and duties performed. It should also be equivalent to executives or employees in similar businesses. The salary shouldn't be in the form of distributions or 1099 payments. The payments should be run through payroll to ensure the proper income tax, social security and unemployment taxes are deducted as they are for a non-shareholder employee or a worker in another company. The business can deduct the wages and taxes from income as operating expenses.

You may be tempted to pay yourself as a 1099 recipient, as life seems so much simpler this way — no payroll taxes to deal with, no payroll tax returns to file, and no payroll services fees to pay. However, having your S corporation pay you this way could cost you thousands of dollars in taxes, interest, and penalties! Because this is a violation of tax law, the IRS can reclassify your 1099 payments as W-2 wages and collect the back payroll taxes and interest on the payroll taxes. With the passage of the Tax Cuts and Jobs Act, failure to pay reasonable compensation is no longer just a payroll tax issue. The Act introduced a new deduction that allows shareholders of an S-Corporation, as well as sole proprietors and partners to deduct 20% of the qualified income from their business on their personal returns. However, qualified business income excludes reasonable compensation paid to the shareholder of an S-Corporation. Failure to pay yourself a reasonable salary will falsely inflate the amount of this deduction, which may lead to the IRS to recalculate the amount of your deduction based upon the amount of compensation that should've been excluded.

There's no requirement that an S corporation pay out all its profits to the shareholder as wages. You may be able to apportion the payments between wages and distributions. Distributions are deemed to be a return on the shareholder's investment. They're included in a shareholder's taxable income but aren't subject to payroll taxes and aren't considered self-employment income subject to self-employment tax. Determining this apportionment can be tricky, so contact us for assistance.

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PADGETT BUSINESS SERVICES® is dedicated to meeting the compliance, profit financial government reporting and payroll needs of businesses with fewer than 20 employees in the retail and service sector of the economy. This publication suggests general business concepts that may be appropriate in certain situations. It is designed to provide complete and accurate information to the reader. However, because of the complexities of the tax law and the necessity of determining whether the material discussed herein is appropriate to your business, it is important you seek advice from your Padgett office before implementing any of the concepts suggested in this newsletter. **AMERICA'S FIRM FOR SMALL BUSINESS TAX NEEDS**