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TAX TIP TUESDAY:

ENTERTAINMENT, BONUS DEPRECIATION AND NET OPERATING LOSSES

By Phylicia Buie, MST 1/15/2019 12:00 PM EST

As part of the 2018 Tax Cuts and Jobs Act (TCJA), businesses will be facing new tax rules regarding the deductibility to many of their ordinary expenses. Although the tax reform was passed just over a year ago, it has taken the IRS nearly all of 2018 to interpret and provide guidance on these new rules and changes. Now that this guidance has been debated, tested and refined, we are ready to point out some of those major changes to get you ready for this upcoming filing season.

ENTERTAINMENT EXPENSES

NEW RULE: 100% DISSALLOWED

The TCJA has disallowed the deduction for entertainment expense beginning January 1st, 2018. The IRS defines entertainment to include: (1) an activity generally considered to be entertainment, amusement, or recreation; (2) membership dues for any club organized for business, pleasure, recreation, or other social purposes; or (3) a facility or portion thereof used in connection with any of these items.

What does this mean for you? Make sure you are properly accounting for the portion of your business expenses as they relate to entertainment to break this out on your 2018 financials. If you take a client out for entertainment in the ordinary course of business and also pick up the tab for meals, please keep in mind the entertainment expense is not deductible, but the meals still remain deductible at 50%. However, the IRS is going to be scrutinizing if business owners are inflating the cost of meals to cover the nondeductible

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portion of entertainment expense. To avoid any confusion, make sure meals expenses are either paid separately or separately stated on joint bill and separately stated on your year-end financials.

Another concept to keep in mind, meals **and** entertainment expenses for the benefit of employees (company picnic or holiday party) should also be separately stated on your year-end financials. Why? These expenses remain fully deductible at 100% of the cost. You don't want to risk these expenses being lost in either the 50% limitation for business meals or a 100% disallowable entertainment expense. Don't have good books and records or need some help with your QuickBooks Online account? Book an appointment with us today to see how we can help.

BONUS DEPRECIATION

NEW RULE: 100% ALLOWED

On the flip side, TCJA extended and modified the bonus depreciation deduction allowing business to immediately deduct 100% of the of eligible property the year it is placed into service through 2022. The TCJA also removed the rule that made bonus depreciation only available to New property.

What does this mean for you? Make sure you are properly accounting for the portion of your business expenses as they relate to property. Talk with your tax professional to discuss tax planning opportunities and overall business strategies to consider whether taking bonus depreciation in 2018 is beneficial for your business. Keeping in mind excess deductions that create an overall business loss (i.e. Net Operating Loss or NOL) are no longer allowed to be carried back under the new tax reform. Generating a NOL only helps your business offset future taxable income.

NET OPERATING LOSSES

NEW RULE: NO CARRYBACK ALLOWED – 80% LIMITATION

As mentioned above, TCJA also changed the rules for the carryback and carryforward of your businesses net operating loss (NOL). Beginning in 2018, NOL's are no longer allowed to be carried back 2 years. The NOL is allowed to be carried forward indefinitely with a small caveat – the NOL is limited to 80% of your taxable income in that future year.

What does this mean for you? Review your 2018 financials to determine if you will be expecting a loss and talk to your tax professional about how that will impact your tax planning for 2019. Did your business have a net operating loss in 2017? There is still time to carryback that loss in accordance with the old rules. In order to claim this carryback, your 2015 return must be amended and filed no later than April 15th, 2019. Book an appointment with us today to learn more.