The Tax Cuts & Jobs Act, enacted late in 2017, contains exciting new provisions for Ohio’s small businesses and their owners. A big emphasis of this tax reform was to permanently reduce the federal tax burden on businesses to make them more competitive. Fortunately, this legislation includes very favorable tax reduction provisions for small businesses and their owners. Small businesses that will likely benefit from these major changes to the U.S. tax code include S corporations, partnerships, LLCs and some sole proprietorships. Most of the changes in the Tax Code went into effect beginning January 1, with the financial savings reflected on 2018 federal returns.

The largest change for small businesses is the inclusion of a qualified business income (QBI) deduction. Very simplistically, the QBI deduction allows for a 20 percent reduction (QBI) deduction. Very simplistically, the QBI deduction allows for a 20 percent reduction in the company’s taxable income that flows to the owners of small businesses thereby reducing the federal tax liabilities of the business owner. The calculation of the QBI deduction is very complex and includes many exclusions and limitations. Unfortunately, the QBI deduction is generally not available for service businesses that provide health, legal, actuarial, performance art, consulting, athletics, financial services, brokerage type services or any other service wherein the principle asset is the reputation or skill of the owner or employees. However, the QBI deduction may apply if income arising in a service business if the owners’ taxable income does not exceed a certain threshold ($157,500 for individuals and $315,000 for married taxpayers).

Another major tax benefit for small businesses is the increase in amounts that can be immediately deducted related to the purchases of certain business assets. Under the old law, businesses could immediately deduct costs of purchasing certain depreciable business assets up to $500,000. Under the Tax Cuts and Jobs Act, Section 179 was amended to increase the dollar limit threshold to $1 million. The new law also expands the provision to include more assets, including fire and alarm systems, HVAC, and security systems (subject to limitations). The new Tax Act also includes a few changes that could increase federal taxes. One significant change is the disallowance of the deduction for entertainment expenses. Beginning in tax year 2018, these entertainment expenses are no longer deductible.

To fully grasp the impact that this new legislation will have on the bottom line, it is recommended that Ohio’s small businesses consult with their tax attorneys.

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EDUCATION & EVENTS
Thursday, Feb 15 • 9 a.m. – 10:30 a.m. Practice Management: Achieving Operational Excellence All Five Sessions: 16.5 CLE Hours
Thursday, Feb 15 • 12 – 1:30 p.m. Office Management/HR PREP Session 1 1.5 NLT or Professional Conduct Hours
Monday, Feb 19 • 9 a.m. – 4:15 p.m. Divorce Practice 101 6.0 NLT or CLE Hours; 1.0 Professional Conduct Hour
Thursday, Feb 22 • 12 – 1:30 p.m. Technology PREP: Cybersecurity Boot Camp 1.5 CLE/NLT or Professional Conduct Hours

All classes listed are offered at the Columbus Bar Associations offices, 175 S. Third St. Ste. 1100. To register, call 614-221-4112 or enroll online at www.cbalaw.org.