The most talked about change was the creation of a new tax deduction. The new tax law will affect your tax planning strategy. The new law made several changes affecting business owners, including creating a new tax deduction, changing the income tax rates and adjusting entertainment expenses.

The most talked about change was the creation of a new tax deduction called the Qualified Business Income deduction. QBI is an up to 20 percent tax deduction available to pass-through entities (e.g., LLCs, Partnerships, S-Corps and Sole Proprietorships) that can be used to reduce tax liability. QBI is a below-the-line deduction and does not require itemization in order to be eligible. Calculating QBI can get fairly complex depending on the particular taxpayer. If you are a taxpayer under the taxable income threshold of $157,500 (Non-married) or $315,000 (Married), then QBI is calculated by multiplying taxable income minus net capital gain by 20 percent (i.e. ($150,000 - $10,000) x 20%) = $28,000. If you are over the taxable income threshold, then there is a more complex calculation that factors in such things as wages paid, qualified property and your specific trade or business.

In addition, to the QBI deduction, the tax law changed the tax rates applicable to business owners. Previously, corporate taxpayers were required to pay income tax at a rate of between 15 – 39 percent. Going forward, corporate taxpayers will only be required to pay income tax at a flat rate of 21 percent. Pass-through entity taxpayers received some relief from the tax law as well. For tax years 2018 – 2026, individuals will pay income tax at a rate of between 10 – 37 percent instead of the max rate of 39.3 percent.

Finally, as business owners, it’s quite common to cultivate new relationships with current clients and prospective new clients. Sometimes, those relationships are created over a shared meal, on the golf course or at the Columbus Blue Jackets game. Under the previous law, you could potentially deduct some cost as a business expense. However, under the new tax law, expenses associated with entertainment are no longer deductible. There is an exception for shared meals, but such cost should be on a separate receipt and/or itemized and is still subject to the 50 percent limitation.

With so many changes, it is important to do year-end planning now to have time to make adjustments. The new tax law provides a number of new opportunities for business owners to consider, including changing the Net-Operating Loss provisions, increasing the Bonus Depreciation and changing the Section 179 deduction. Whether you have an internal team or external tax support, it’s important to review the tax law changes and ensure that your business is benefiting from them.