**December 2018**

# 2018 Last-Minute Year-End General Business Deductions

The purpose of this article is to get the IRS to owe you money.

Of course, the IRS is not likely to cut you a check for this money (although in the right circumstances, that will happen), but you'll realize the cash when you pay less in taxes.

This article gives you five powerful business tax deduction strategies that you can easily understand and implement before the end of 2018.

## *1. Prepay Expenses Using the IRS Safe Harbor*

You just have to give thanks to the IRS for its tax-deduction safe harbors.

IRS regulations contain a safe-harbor rule that allows cash-basis taxpayers to prepay and deduct qualifying expenses up to 12 months in advance without challenge, adjustment, or change by the IRS.[1]

Under this safe harbor, your 2018 prepayments cannot go into 2020. This makes sense, because you can prepay only 12 months of qualifying expenses under the safe-harbor rule.

For a cash-basis taxpayer, qualifying expenses include, among others, lease payments on business vehicles, rent payments on offices and machinery, and business and malpractice insurance premiums.

**Example.** You pay $3,000 a month in rent and would like a $36,000 deduction this year. So on Monday, December 31, 2018, you mail a rent check for $36,000 to cover all of your 2019 rent. Your landlord does not receive the payment in the mail until Wednesday, January 2, 2019. Here are the results:

- You deduct $36,000 in 2018 (the year you paid the money).
- The landlord reports $36,000 in 2019 (the year he received the money).

You get what you want—the deduction this year.

The landlord gets what he wants—next year's entire rent in advance, eliminating any collection problems while keeping the rent taxable in the year he expects it to be taxable.

Don't surprise your landlord: if he had received the $36,000 of rent paid in advance in 2018, he would have had to pay taxes on the rent money in 2018.

Before sending a big rent check to your landlord, make sure the landlord understands the strategy. Otherwise, he might not deposit the rent check (thinking your payment was a mistake) and, instead, return the check to you. This could put a crimp in the strategy because you operate on a cash basis.

Also, think proof. Remember, the burden of proof is on you. How do you prove that you mailed the check by December 31? Think like an IRS auditor or, better yet, a prosecuting attorney.

Answer: Send the check using one of the postal services tracking delivery methods, such as priority mail with tracking and possibly signature required, or by one of the old standards, which were certified or registered mail.

With these types of mailings, you have proof of the date that you mailed the rent check. You also have proof of the day the landlord received the check.

If you are using USPS online tracking, make sure to print the delivery and receipt tracking results for your tax records, because that tracking information disappears from the postal service records long before you would need it for the IRS.

## *2. Stop Billing Customers, Clients, and Patients*

Here is one rock-solid, time-tested, easy strategy to reduce your taxable income for this year: Stop billing your customers, clients, and patients until after December 31, 2018. (We assume here that you or your corporation is on a cash basis and operates on the calendar year.)

Customers, clients, patients, and insurance companies generally don't pay until billed. Not billing customers and patients is a time-tested tax-planning strategy that business owners have used successfully for years.

**Example.** Jim Schafback, a dentist, usually bills his patients and the insurance companies at the end of each week; however, in December, he sends no bills. Instead, he gathers up those bills and mails them the first week of January. Presto! He just postponed paying taxes on his December 2018 income by moving that income to 2019.

## *3. Buy Office Equipment*

With bonus depreciation now at 100 percent along with increased limits for Section 179 expensing, buy your equipment or machinery and place it in service before December 31 and get a deduction for 100 percent of the cost in 2018.[2]

Qualifying bonus depreciation and Section 179 purchases include, among others, new and used personal property such as machinery, equipment, computers, desks, furniture, and chairs (and certain qualifying vehicles discussed in the vehicle articles in this issue).

## *4. Use Your Credit Cards*

If you are a single-member LLC or sole proprietor filing Schedule C for your business, the day you charge a purchase to your business or personal credit card is the day you deduct the expense.[3] Therefore, as a Schedule C taxpayer, consider using your credit cards for last-minute purchases of office supplies and other business necessities.

If you operate your business as a corporation, and if the corporation has a credit card in the corporate name, the same rule applies: the date of charge is the date of deduction for the corporation.[4]

But if you operate your business as a corporation and you are the personal owner of the credit card, the corporation must reimburse you if you want the corporation to realize the tax deduction, and that happens on the date of reimbursement. Thus, submit your expense report and have your corporation make its reimbursements to you before midnight on December 31.

## *5. Don’t Assume You Are Taking Too Many Deductions*

If your business deductions exceed your business income, you have a tax loss for the year. With a few modifications to the loss, tax law calls this a “net operating loss,” or NOL.[5]

If you are just starting your business, you could very possibly have an NOL. You could have a loss year even with an ongoing successful business.

You used to be able to carry back your NOL two years and get immediate tax refunds from prior years; however, the Tax Cuts and Jobs Act eliminated this provision.[6] Now, you can only carry your NOL forward, and it can only offset up to 80 percent of your taxable income in any one future year.[7]

Don’t worry—you can still get immediate use of your business loss in 2018 by using the strategies outlined in Five Strategies for Your Business Losses after Tax Reform. But to make those strategies work, you’ll need to take action before December 31.

What does this all mean? You should never stop documenting your deductions, and you should always claim all your rightful deductions. We have spoken with far too many business owners, especially new owners, who don't claim all their deductions when those deductions would produce a tax loss.

But this won't happen to you. Why? Because, as a subscriber, you know all deductions are valuable. And you know even those deductions not used this year can create tax benefits for you in the future.

## *Takeaways*

When it comes to your taxes, business deductions are king. The more business deductions you can claim, the better. The more business deductions you claim, the less you pay in regular taxes.

Yes, paying less in taxes is good.

Here are the five tax deduction strategies we covered in this article:

1. Prepaying your 2018 expenses right now reduces your taxes this year, without question. While it's true you kicked the can down the road some, perhaps you have an offset with a big deduction planned for next year. And even if you don't have such a plan at the moment, you have plenty of time to create one or to put more big deductions in place for 2019.

2. The easiest year-end strategy of all is simply to stop billing your customers, clients, and patients. Once again, this kicks the can down the road some and makes your 2019 tax planning more important.

3. With 100 percent bonus depreciation and increased Section 179 expensing in 2018, you can make significant purchases of equipment, machinery, and furniture and write off 100 percent of the value. Make sure you place the assets in service on or before December 31, 2018, to get the deduction this year.

4. Charges to your credit cards can create deductions on the day of the charge. This is absolutely true if you are a sole proprietor or you operate as a corporation and the credit card is in the name of the corporation. But if you operate as a corporation and the credit card is in your personal name, your corporation needs to reimburse you before December 31 to create the 2018 deduction at the corporate level.

5. And finally, claim all your legitimate deductions. Don't think you have too many, and don't try to guess which of your too-many deductions could be a red flag. First, it's unlikely you could have enough deductions to create a red flag. Second, no one knows what those red flags are. Third, if the deduction is legitimate, it doesn't matter if the IRS audits it—you'll win.

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1 IRS Reg. 1.263(a)-4(f).
2 IRC Sections 168(k) 2018; 179(b)(1) 2018.
3 Rev. Rul. 78-38.
4 Ibid.
5 IRC Section 172(d) 2018.
6 IRC Section 172(b)(1)(A)(i) 2018.
7 IRC Section 172(a)(2) 2018.