YEAR-END TAX PLANNING LETTER

SUBMITTED BY

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Dear Clients and Friends,

As 2018 draws to a close, there is still time to reduce your 2018 tax bill and plan ahead for 2019. Year-end planning this year follows the new laws created by the Tax Cuts and Jobs Act that made major changes to the rules for individuals and businesses. This letter highlights several potential tax-saving opportunities for you to consider whether you are a business operator or an individual.

If you have any questions, please do not hesitate to call. We would be happy to meet with you at your convenience to discuss the strategies outlined below. While we are getting very close to the end of the year, there is still time to implement these strategies to minimize your 2018 tax liability.

Sincerely,

Anglin Reichmann Armstrong P.C.

Individual Filers

<u>Basic Numbers You Need to Know</u>

Because many tax benefits are tied to or limited by adjusted gross income (AGI)—IRA deductions and medical expenses, for example—a key aspect of tax planning is to estimate both your 2018 and 2019 AGI. Also, when considering whether to accelerate or defer income or deductions, you should be aware of the impact this action may have on your AGI and your ability to maximize itemized deductions that are tied to AGI. Your 2017 tax return and your 2018 pay stubs and other income- and deduction-related materials are a good starting point for estimating your AGI.

<u>Comparison of New 2018 Tax Rates and Brackets vs. Old 2017 Tax Rates and Brackets</u>

2018 Federal Tax Rates and Marginal Tax Brackets

Tax Rates	Single Filer Tax Brackets	Married Filing Jointly Tax Brackets	Married Filing Separately Tax Brackets	Head of Household Tax Brackets
10%	$0-$9,525	$0-$19,050	$0-$9,525	$0-$13,600
12%	$9,525-$38,700	$19,050-$77,400	$9,525-$38,700	$13,600-$51,800
22%	$38,700-$82,500	$77,400-$165,000	$38,700-$82,500	$51,800-$82,500
24%	$82,500-$157,500	$165,000-$315,000	$82,500-$157,500	$82,500-$157,500
32%	$157,500-$200,000	$315,000-$400,000	$157,500-$200,000	$157,500-$200,000
35%	$200,000-$500,000	$400,000-$600,000	$200,000-$300,000	$200,000-$500,000
37%	$500,000+	$600,000+	$300,000+	$500,000+

2017 Federal Tax Rates and Marginal Tax Brackets

Tax Rates	Single Filer Tax Brackets	Married Filing Jointly Tax Brackets	Married Filing Separately Tax Brackets	Head of Household Tax Brackets
10%	$0-$9,325	$0-$18,650	$0-$9,325	$0-$13,350
15%	$9,325-$37,950	$18,650-$75,900	$9,325-$37,950	$13,350-$50,800
25%	$37,950-$91,900	$75,900-$153,100	$37,950-$76,550	$50,800-$131,200
28%	$91,900-$191,650	$153,100-$233,350	$76,550-$116,675	$131,200-$212,500
33%	$191,650-$416,700	$233,350-$416,700	$116,675-$208,350	$212,500-$416,700
35%	$416,700-$418,400	$416,700-$470,700	$208,350-$235,350	$416,700-$444,550
39.6%	$418,400+	$470,700+	$235,350+	$444,550+

Deferring Income to 2019

If the taxpayer expects AGI to be higher in 2019 than in 2018, or anticipates being in the same or a higher tax bracket in 2018, he/she may benefit by deferring income to 2019. Deferring income will be advantageous so long as the deferral does not bump income to the next tax bracket. Deferring income could be disadvantageous, however, if the deferred income is subject to §409A, thus making the income includible in gross income and subject to additional tax. Some ways to defer income include:

Delay Billing: For self-employed taxpayers using the cash-basis of accounting, delay year-end billing to clients so that payments will not be received until 2019.

Interest and Dividends: Interest income earned on Treasury securities and bank certificates of deposit with maturities of one year or less is not includible in income until received. To defer interest income, consider buying short-term bonds or certificates that will not mature until next year. If there is a possibility of receiving dividends from a closely held company, the timing of receipt of those dividends should be weighed.

<u>How Can an Individual Plan His/Her Deductions?</u>

Deduction timing is an important element of year-end tax planning. Deduction planning is complex, however, due to factors such as AGI levels, AMT, and filing status. Cash-method taxpayers should keep the following in mind:

Deduction in Year Paid: An expense is only deductible in the year in which it is actually paid. Under this rule, if the taxpayer's tax rate is going to increase in 2018, it is a smart strategy to postpone spending until after year end to take the deduction in 2019.

Payment by Check: Date checks before the end of the year and mail them before January 1, 2019.

Promise to Pay: A promise to pay or providing a note does not make the expense deductible. But a deduction can be taken if the taxpayer pays with money borrowed from a third party. Hence, paying by credit card in 2018, allows the taking of a deduction even though the credit card bill won't be paid until 2019.

AGI Limits: The overall limitation on itemized deductions (i.e., the so-called “Pease” limitation) does not apply in 2018. In addition, certain deductions may be claimed only if they exceed a percentage of AGI: 7.5% 10% for medical expenses, and 10% for casualty losses due to federally declared disasters. Note that the 2017 tax act (P.L. 115-97) suspended the ability to deduct all miscellaneous itemized deductions subject to the 2% AGI floor.

Standard Deduction versus Itemized Deduction Planning: Deduction planning is also affected by the standard deduction. For 2018 returns, the standard deduction is $12,000 for single filers and married couples filing separately, $24,000 for married couples filing jointly and surviving spouses, and $18,000 for head of household. As can be seen from the numbers, for 2018, the standard deduction for married taxpayers is twice the amount as that for single taxpayers. If itemized deductions are relatively constant and are close to the standard deduction amount, little or no benefit will be gained from itemizing your deductions each year. But simply taking the standard deduction each year means the loss of the benefit of itemized deductions that exceed the standard deduction. To maximize the benefits of both the standard deduction and itemized deductions, consider adjusting the timing of deductible expenses so that they are higher in one year and lower in the following year. This can be accomplished by paying in 2018 deductible expenses, such as mortgage interest due in January 2019, state estimated tax payments due in early 2019, or doubling up on your charitable contributions every other year. The $10,000 cap on the state and local tax deduction and suspension of the deduction for miscellaneous itemized deductions may significantly impact deduction planning.

State and Local Income Taxes and General Sales Taxes: If the taxpayer anticipates a state income tax liability for the next tax year and plans to make an estimated payment most likely due in January, consider making the payment before the end of 2018. Or, taxpayers may elect to itemize and deduct state and local general sales taxes in lieu of the itemized deduction for state and local income taxes on 2018 returns. Note that for 2018, there is a $10,000 cap on the state and local tax deduction.

Charitable Contributions: Consider making charitable contributions at the end of the year. This will give the taxpayer use of the money during the year and simultaneously permit him/her to claim a deduction for that year. A credit card can be used to charge donations in 2018 even though the bill will not be paid until 2019. A mere pledge to make a donation is not deductible, however, unless it is paid by the end of the year. Note, however, for claimed donations of cars, boats and airplanes of more than $500, the amount available as a deduction will significantly depend on what the charity does with the donated property, not just the fair market value of the donated property. If the organization sells the property without any significant intervening use or material improvement to the property, the amount of the charitable contribution deduction cannot exceed the gross proceeds received from the sale.

To avoid capital gains, consider donating appreciated property to charity. Regarding charitable contributions the following rules apply for charitable donations of household items or clothing: (1) no deduction is allowed for charitable contributions of clothing and household items if such items are not in good used condition or better; and (2) the IRS may deny a deduction for any item with minimal monetary value. If a single household item or clothing is not in good or used condition or better and the taxpayer plans to claim a deduction of $500 or more, a qualified appraisal must be included with his or her return. Charitable contributions of money, regardless of the amount, will be denied a deduction, unless the donor maintains a cancelled check, bank record, or receipt from the donee organization showing the name of the donee organization, and the date and amount of the contribution.

A special provision gives taxpayers the ability to distribute tax-free to charity up to $100,000 from a traditional or Roth IRA maintained for an individual who has reached age 70 1/2.

There is an additional opportunity regarding charitable contributions through a donor advised fund. You can used a donor advised fund to bunch multiple years' worth of donations in a single year to receive maximum tax benefits for your charitable contributions.

Taxpayers with Children

Child Tax Credit: A tax credit of $2,000 per qualifying child under the age of 17 is available on this year's return. In order to qualify for 2018, the child must qualify as a dependent of the taxpayer. Another qualifying determination is that the qualifying child must be younger than the taxpayer. The credit is phased out at a rate of $50 for each $1,000 (or fraction of $1,000) of modified AGI exceeding the following amounts: $400,000 for married filing jointly, and $200,000 for all other taxpayers. As much as $1,400 (adjusted for inflation) is refundable. A $500 nonrefundable credit for dependents other than qualifying children also is available.

Kiddie Tax: For tax years beginning after December 31, 2017, the unearned income of a child is subject to ordinary and capital gains rates applicable to trusts and estates. The earned income of a child is taxed according to an unmarried taxpayer's brackets and rates. The "kiddie tax" is not affected by the tax situation of the child's parents or unearned income of any siblings. The kiddie tax applies to: (1) children under 18 who do not file a joint return; (2) 18-year-old children who have unearned income in excess of the threshold amount, do not file a joint return, and who have earned income, if any, that does not exceed one-half of the amount of the child's support; and (3) children between the ages of 19 and 23 if, in addition to the above rules, they are full-time students. Investment earnings in excess of $2,100 will be taxed at the rates that apply to trusts and estates.

What Tax Savings Are Available for Taxpayers with Investment Income?

The following rules apply for most capital asset transactions in 2018:

Capital gains on property held one year or less are taxed at an individual's ordinary income tax rate. • Capital gains on property held for more than one year are taxed depending on your regular income tax bracket. The chart below shows the income amounts where the rates take effect.

	Single	Joint	Head of household
0% tax bracket	$0-38,600	$0-$77,200	$0-$51,700
beginning of 15% tax bracket	$38,601	$77,201	$51,701
beginning of 20% tax bracket	$425,801	$479,001	$452,401

Timing of Sales: Consider timing the sale of assets so as to have offsetting capital losses and gains. Capital losses may be fully deducted against capital gains and also may offset up to $3,000 of ordinary income ($1,500 for married filing separately). In general, when losses are taken, long-term losses are first matched against your long-term gains, and short-term losses against short-term gains. If there are any remaining losses, they may be used to offset any remaining long-term or short-term gains, or up to $3,000 (or $1,500) of ordinary income. When and whether to recognize such losses should be analyzed in light of the possible future changes in the capital gains rates.

Exclusion of Gain Attributable to Certain Small Business Stock: 100% of the gain on the sale of " small business stock" under §1202 that is acquired after September 27, 2010, is excluded from income. The stock must be held for more than five years to qualify. If the stock was acquired on or before September 27, 2010, other less favorable exclusion percentages apply.

Installment Sales: Generally, a sale occurs when property is transferred. If a gain will be realized on the sale, income recognition will normally be deferred under the installment method until payments are received, so long as one payment is received in the year after the sale. So if a taxpayer expects to sell property at year-end, and it makes economic sense, consider selling the property using the installment method to defer payments (and tax) until next year or later. Using the installment sale method may also defer exposure to the 3.8% NIIT.

IRA, Retirement Savings Rules

Tax-saving opportunities continue for retirement planning due to the availability of traditional and Roth IRAs and other retirement savings incentives.

Traditional IRAs: Individuals who are not active participants in an employer pension plan may make deductible contributions to an IRA. The annual deductible contribution limit for an IRA for 2018 is $5,500. For 2018, a $1,000 "catch-up" contribution is allowed for taxpayers age 50 or older by the close of the taxable year, making the total limit $6,500 for these individuals. Individuals who are active participants in an employer pension plan also may make deductible contributions to an IRA, but their contributions are limited in amount depending on their AGI. For 2018, the AGI phase-out range for deductibility of IRA contributions is between $63,000 and $73,000 of modified AGI for single persons (including heads of households), and between $101,000 and $121,000 of modified AGI for married filing jointly. Above these ranges, no deduction is allowed.

In addition, an individual will not be considered an “active participant” in an employer plan simply because the individual's spouse is an active participant for part of a plan year. Thus, you may be able to take the full deduction for an IRA contribution regardless of whether your spouse is covered by a plan at work, subject to a phase-out if your joint modified AGI is $189,000 to $199,000 ($0 - $10,000 if married filing separately) for 2018. Above this range, no deduction is allowed.

IRA Rollovers: For 2018, taxpayers may make only one IRA-to-IRA rollover per year. (Direct rollovers from trustee to trustee are not affected.) A second attempted rollover will be treated as a withdrawal and taxed at regular rates, plus a possible 10% early withdrawal penalty.

Spousal IRA: If an individual files a joint return and has less compensation than his or her spouse, the IRA contribution is limited to the lesser of $5,500 for 2018 plus age 50 catch-up contributions ($1,000 for 2018), or the total compensation of both spouses reduced by the other spouse's IRA contributions (traditional and Roth).

Roth IRA: This type of IRA permits nondeductible contributions of up to $5,500 ($6,500 if making eligible catch-up contribution) for 2018, but no more than an individual's compensation. Earnings grow tax-free, and distributions are tax-free provided no distributions are made until more than five years after the first contribution and the individual has reached age 591/2. Distributions may be made earlier on account of the individual's disability or death. The maximum contribution is phased out in 2018 for persons with an AGI above certain amounts: $189,000 to $199,000 for married filing jointly, and $120,000 to $135,000 for single taxpayers (including heads of households); and between $0 and $10,000 for married filing separately who lived with the spouse during the year.

Roth IRA Conversion Rule: Funds in a traditional IRA (including SEPs and SIMPLE IRAs), § 401(a) qualified retirement plan, §403(b) tax-sheltered annuity, or §457 government plan may be rolled over into a Roth IRA. Such a rollover, however, is treated as a taxable event, and you will pay tax on the amount converted. No penalties will apply if all the requirements for such a transfer are satisfied. If you made a Roth IRA conversion earlier in the tax year, you do not have the option to use recharacterization to undo the conversion. This strategy is not available beginning in 2018. Previously, the strategy could be used for investments that have gone down in value so that if the conversion were accomplished later in the year, taxes owed would be lower.

Maximize Retirement Savings: In many cases, employers will require you to set your 2019 retirement contribution levels before January 2019. But, if you did not elect the maximum 401(k) contribution for 2018, you may be able to increase your amount for the remainder of 2018 to lower your AGI in order to take advantage of some of the tax breaks described above. Maximizing your contribution is generally a good tax-saving move.

What Health Care Issues Should be Considered for Year-End Planning?

Individual Mandate: Under the 2010 health care law, sometimes called Obamacare, there is an individual mandate requiring individuals and their dependents to have health insurance that is minimum essential coverage or pay a penalty unless they are exempt from the requirement. Many people already have qualifying coverage, which can be obtained through the individual market, an employer-provided plan or coverage, a government program such as Medicare or Medicaid, or an Exchange. For lower-income individuals who obtain health insurance in the individual market through an Exchange, a premium tax credit and cost-sharing reductions may be available to offset the costs. The 2017 tax legislation made the penalty $0 for 2019 and beyond, but the mandate and related penalties continue to apply for 2018.

Health Care Flexible Spending Accounts: For 2018, cafeteria plans can provide that employees may elect no more than $2,650 in salary reduction contributions to a health FSA. Typically, employers require the following year's election to be set prior to the end of the year. To estimate the best amount to contribute, taxpayers need to identify potential medical expenses.

Self-Employed Health Insurance Premiums: Self-employed individuals are allowed to claim 100% of the amount paid during the taxable year for insurance that constitutes medical care for themselves, their spouses, and their dependents as an above-the-line deduction, without regard to the general 7.5% of AGI floor.

Health Savings Accounts: A health savings account (HSA) is a trust or custodial account exclusively created for the benefit of the account holder and his or her spouse and dependents, and is subject to rules similar to those applicable to individual retirement arrangements (IRAs). Contributions to an HSA are deductible, within limits. For 2018, the annual limitation on deductions for an individual with self-only coverage under a high deductible health plan is $3,450; for an individual with family coverage under a high deductible health plan is $6,900. For 2018, a “high deductible health plan” is a health plan with an annual deductible that is not less than $1,350 for self-only coverage or $2,700 for family coverage, and the annual out-of-pocket expenses (deductibles, co-payments, and other amounts, but not premiums) do not exceed $6,650 for self-only coverage or $13,300 for family coverage. In computing the annual HSA contribution amount, an individual who is eligible during the last month of a taxable year (December) is treated as having been eligible for all prior months during the taxable year and, thus, is allowed to make contributions for months before the individual was enrolled in a high deductible health plan.

Is the Taxpayer Subject to the Alternative Minimum Tax?

For 2018, the alternative minimum tax exemption amounts are: (1) $109,400 for married individuals filing jointly and for surviving spouses; (2) $70,300 for unmarried individuals other than surviving spouses; and (3) $54,700 for married individuals filing a separate return. Also, for 2018, nonrefundable personal credits can offset an individual's regular and alternative minimum tax, and capital gains will be taxed at lower favorable rates for AMT. For 2018, the amount of AMTI above which the 28% rate applies is $191,500 for married individuals filing joint returns and $95,750, for other taxpayers.

If the taxpayer has stock holding due to the exercise of an incentive stock option during this year that is now below the value at the exercise date (underwater), consider selling the shares before the end of the year to avoid the AMT tax due on the original exercise of the option. Some of the standard year-end planning ideas will not reduce tax liability if the taxpayer is subject to the alternative minimum tax (AMT) because different rules apply. For example, state income and property tax deductions, miscellaneous itemized deductions, and personal exemption deductions are disallowed in calculating AMT.

Is the Taxpayer Required to Make Estimated Tax Payments?

An individual taxpayer may be able to avoid any underpayment penalties by paying estimated taxes based on 100% of the tax shown on the prior year return. However, if an individual's adjusted gross income as shown on the tax return for the preceding tax year exceeds $150,000 ($75,000 in the case of a married individual who files separately), the amount of the required installment is generally increased to 110% of the tax shown on the prior year's return. An income tax projection should be completed in order to determine the best option.

What Gift Giving Techniques Are Available to Reduce Gift Tax?

Annual Gift Tax Exclusion: The most commonly used method for tax-free giving is the annual gift tax exclusion, which, for 2018, allows a person to give up to $15,000 to each donee without reducing the giver's estate and lifetime gift tax exclusion amount. A person is not limited as to the number of donees to whom he or she may make such gifts. Further, because the annual exclusion is applied on a per-donee basis, a person can leverage the exclusion by making gifts to multiple donees (family and non-family).

Business Filers

The Tax Cuts and Jobs Act of 2017 changed the top corporate (C-Corporation) tax rate from 35% to one flat rate of 21%. This rate will be effective for corporations whose tax year begins after January 1, 2018, and it is a permanent change. The corporate tax rate also applies to LLC's who have elected to be taxed as corporations. This rate does not apply to S corporations. There is potential that switching from either S Corp to C Corp or vice versa could benefit your business.

Deferring Income into 2019

Deferring income to the next taxable year is a time-honored year-end planning tool. If you expect your taxable income to be higher in 2018 than in 2019, or if you operate as anything except a C corporation and you anticipate being in the same or a higher tax bracket in 2018 than in 2019, you may benefit by deferring income into 2019. With the passage of tax reform largely going into effect in 2018, new considerations may need to be made for the end of 2018. Of course, if an individual is subject to the alternative minimum tax, standard tax planning may not be warranted. Some ways to defer income include:

Use of Cash Method of Accounting: By adopting the cash method of accounting instead of the accrual method, you can generally put yourself in a better position for accelerating deductions and deferring income. There is still time to implement this planning idea, because an automatic change to the cash method can be made by the due date of the return including extensions. C corporations or partnerships with a C corporation partner with average annual gross receipts of $25 million or less for the prior three taxable years can make an automatic change to the cash method. Provided inventories are not a material income producing factor, sole proprietors, limited liability companies (LLCs), partnerships, and S corporations can change to the cash method of accounting without regard to their average annual gross receipts.

Delay Billing: If you are on the cash method, delay year-end billing to clients so that payments are not received until 2019.

Accelerating Income into 2018

You may benefit from accelerating income into 2018. For example, in the case of non-C corporation taxpayers, you may anticipate being in a higher tax bracket in 2019, or perhaps you need additional income in 2018 to take advantage of an offsetting deduction or credit that will not be available to you in future tax years. Note, however, that accelerating income into 2018 could be disadvantageous if you expect to be in the same or lower tax bracket for 2019.

If you report your business income and expenses on a cash basis, issue bills and pursue collection before the end of 2018. Also, see if some of your clients or customers are willing to pay for January 2019 goods or services in advance. Any income received using these steps will shift income from 2019 to 2018.

Accelerating Business Deductions

Bad Debts: If you use the accrual method, you can accelerate deductions into 2018 by analyzing your business accounts receivable and writing off those receivables that are totally or partially worthless. By identifying specific bad debts, you should be entitled to a deduction. You may be able to complete this process after year-end if the write-off is reflected in the 2018 year-end financial statements. For non-business bad debts (such as uncollectible loans), the debts must be wholly worthless to be deductible, and will probably only be deductible as a capital loss.

2018 Bonuses: In general, if you are paying a bonus to employees, you may accrue that liability and deduct that amount if all the events are satisfied that fix that liability even though you pay the bonus next year, and you do not have a unilateral right to cancel the bonus at any time prior to payment. Generally, you will accelerate the bonus deduction into 2018 while your employees will report the income in 2019 if they are cash method taxpayers. Furthermore, any compensation arrangement that defers payment will be currently deductible only if paid within 2.5 months after the employer's year-end.

Highlights of Tax Credits

Research and Development Tax Credit: Beginning in 2016, eligible small businesses ($50 million or less in gross receipts) may claim the research and development tax credit against alternative minimum tax liability (which no longer applies to C corporations due to the repeal of the corporate AMT by the 2017 tax act), and the credit can be used by certain qualified small businesses against the employer's payroll tax (i.e., FICA) liability.

Work Opportunity Credit: The work opportunity credit is an incentive provided to employers who hire individuals in groups whose members historically have had difficulty obtaining employment. The credit gives a business an expanded opportunity to employ new workers and to be eligible for a tax credit based on the wages paid. The credit is available for first-year wages paid or incurred for employees hired and who began work during certain years the credit was available. Employers who hire qualified long-term unemployed individuals (i.e., those who have been unemployed for 27 weeks or more) will be entitled to an increased credit amount (i.e., 40% of the first $6,000 of wages) for new hires that begin to work for an employer on or after January 1, 2016 through December 31, 2019.

Employer-Provided Child Care Credit: For 2018, employers may claim a credit of up to $150,000 for supporting employee child care or child care resource and referral services. The credit is allowed for a percentage of “qualified child care expenditures,” including for property to be used as part of a qualified child care facility, for operating costs of a qualified child care facility, and for resource and referral expenditures.

The Act introduces a new component credit for paid family and medical leave, i.e. the paid family and medical leave credit, which is available to eligible employers for wages paid to qualifying employees on family and medical leave. The credit is available as long as the amount paid to employees on leave is at least 50% of their normal wages and the leave payments are made in employer tax years beginning in 2018 and 2019. That is, under the Act, the new credit is temporary and won't be available for employer tax years beginning in 2020 or later unless Congress extends it further.

For leave payments of 50% of normal wage payments, the credit amount is 12.5% of wages paid on leave. If the leave payment is more than 50% of normal wages, then the credit is raised by .25% for each 1% by which the rate is more than 50% of normal wages. So, if the leave payment rate is 100% of the normal rate, i.e. is equal to the normal rate, then the credit is raised to 25% of the on leave payment rate. The maximum leave allowed for any employee for any tax year is 12 weeks.

General Business Considerations

Business Deductions

Qualified Business Income Deduction: The 2017 tax act added a new deduction of up to 20% for individuals, trusts, and estates who are owners of non-C corporation businesses. The deduction is for qualified business income in addition to qualified publicly traded partnership income, qualified REIT dividends and income of, or received from, certain agricultural and horticultural cooperatives.

Excess Business Loss: Beginning in 2018 and until 2025, taxpayers other than C corporations are limited in their ability to deduct business loss. The excess business loss that is disallowed, is instead carried forward as part of the taxpayer's net operating loss in succeeding years.

Business Interest Deduction Limit: Beginning in 2018, the limitation on the deduction for business interest expense was substantially expanded. We should discuss these new rules when we meet to determine how these new changes will affect you in 2018.

Charitable Contributions: A charitable donation deduction is available to businesses, but the actual deductibility depends on the business form. A corporation is allowed a deduction of up to 10% of its taxable income; whereas, a pass-through entity is subject to an individual's limitations. Specific types of assets may also have limited deductibility, or may need to meet certain requirements. In addition, the substantiation and reporting regulations for charitable donations were recently updated. While most of the changes were relatively minor, qualified appraisals and qualified appraisers, must now meet particular requirements. Please contact me before making charitable donations, particularly inventory items, to ensure you meet the deduction requirements.

Equipment Purchases: If you purchase equipment, you may make a "§ 179 election," which allows you to expense (i.e., currently deduct) otherwise depreciable business property, including computer software and qualified real property. Air conditioning and heating units placed in service during tax years beginning in or after 2016 are eligible for this deduction. You may elect to expense up to $1,000,000 in 2018 of equipment costs (with a phase-out for purchases in excess of $2,500,000 in 2018), and the deduction is subject to a business income limit.

Bonus Depreciation: For new or used property acquired and placed in service during the period beginning on September 27, 2017 and running through 2022 (with an additional year for certain property with a longer production period), the bonus depreciation percentage is 100%, with a phase down beginning in 2023 (2024 for longer production period property).

Vehicles Weighing Over 6,000 Pounds: A popular strategy in recent years is to purchase a vehicle for business purposes that exceeds the depreciation limits set by statute (i.e., a vehicle rated over 6,000 pounds). Doing so would not subject the purchase to the statutory dollar limit for depreciation: $10,000 for 2018; $10,000 in the case of vans and trucks (if bonus depreciation is taken, the 2018 amounts increase to $18,000 for cars and $18,000 for vans and trucks). Therefore, the vehicle would qualify for the full equipment expensing dollar amount. However, for SUVs (rated between 6,000 and 14,000 pounds gross vehicle weight) the expensing amount is limited to $25,000. Note that for property acquired after September 27, 2017, the phase-down period to lower the increase in depreciation limits ($8,000 (2018) to $6,400 (2019)) when bonus depreciation is taken, was delayed until 2019. This means, to maximize the first-year depreciation it is best to put the vehicle in service in 2018 if you were contemplating this action in the next few months.

Inventories of Subnormal Goods: You should check for subnormal goods in your inventory. Subnormal goods are goods that are unsalable at normal prices or unusable in the normal way due to damage, imperfections, shop wear, changes of style, odd or broken lots, or other similar causes, including second-hand goods taken in exchange. If your business has subnormal inventory as of the end of 2018, you can take a deduction for any write-downs associated with that inventory provided you offer it for sale within 30 days of your inventory date. The inventory does not have to be sold within the 30-day time frame.

Health Care and Other Employee Benefit Planning

Pay or Play Excise Tax: For the 2018 plan year, if you have 50 or more full-time equivalent employees, you could be subject to an excise tax, which could be as much as $2,320 per full-time employee, for failure to offer a health care plan that is minimum essential coverage to at least 95% of your full-time employees if at least one employee obtains subsidized coverage through a public health insurance exchange. The first 30 workers are excluded from the penalty excise tax. If you do offer coverage but it is not adequate or is unaffordable, the excise tax could be $3,480 for each full-time employee who obtains subsidized coverage through an exchange. Smaller employers should review whether they have undergone, or will soon undergo, any changes to their business structure that would require them to be aggregated with other entities and subject them to potential liability. Larger employers should consider their health care plan options in light of this potential excise tax liability.

Health Care Reporting: Filings for 2018 Forms 1095-C and Form 1094-C, generally for employers with 50 or more full-time equivalent employees, and Forms 1095-B and Form 1094-B, for employers with self-insured plans and other providers of minimum essential coverage, are due specifically by February 28, 2019, if you are filing on paper, or by April 1, 2019, if you are filing electronically. Statements to employees are due by January 31, 2019. Extensions are available.

Health Reimbursement Arrangements: Certain small employers that want to assist their employees in obtaining health insurance may choose to set up a qualified small employer health reimbursement arrangement. The QSEHRA, unlike other health reimbursement arrangements, is a tax-favored arrangement that is not considered a group health plan and does not expose the employer to excise taxes for not satisfying Affordable Care Act requirements. It's available to employers that have fewer than 50 full-time equivalent employees, do not offer any health plan, and meet other requirements.

The technical information in this newsletter is necessarily brief. No final conclusion on these topics should be drawn without further review and consultation.