BUSINESS TAX DEDUCTION STRATEGIES

BusinessManagement DAILY

Business Tax Deduction Strategies

13 tips on achieving write-offs through deductions, retirement plans, fringe benefits and the Tax Cuts and Jobs Act

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Savvy businesses take a proactive approach to seizing all the business tax deductions they're legally entitled to under current tax law. Don't add to your tax bill by overlooking crucial write-offs.

Business Tax Deduction Strategies lays out 13 shrewd tax-planning moves you can make to reap the biggest tax savings. **Tax laws change fast, so always keep an eye on the news!**

Business Tax Deduction Strategies #1

7 tax moves for a business

The Tax Cuts and Jobs Act (TCJA) included a bevy of both tax breaks and drawbacks for business owners.

Strategy: Assess your current tax situation. Make your moves before the year-end to maximize the tax benefits and minimize the damages.

Consider the following seven strategies.

1. Buy business equipment. There's an extra tax incentive to acquire equipment before the end of the year. Due to TCJA enhancements to Section 179 and the "bonus depreciation" provision, your business may be able to write off all or most of the cost of equipment placed in service in 2019. In brief, the Section 179 deduction was doubled to $1 million (indexed for inflation) and 100% bonus depreciation was restored and extended, subject to a gradual phase-out beginning in 2023.

Tip: Bonus depreciation is also available for used, not just new, equipment.

2. Catch a pass-through deduction. Effective for 2018 and thereafter, the TCJA carved out a brand-new deduction for qualified business income (QBI) of owners of pass-through entities like S corporations, partnerships and limited liability companies, as well as sole proprietorships. The deduction can be up to 20% of QBI for a qualified taxpayer, but it's phased out for higher-income taxpayers, with special limits for most of those in a "specified service trade or business."

Tip: Depending on your situation, you might juggle income at year-end to maximize your QBI deduction. Consult with your tax professional.

3. Squeeze under business interest cap. Under the TCJA, the annual deduction for the net interest of a business, regardless of its form of ownership, is limited to 30% of its adjusted taxable income, as defined. However, the new 30% net interest limit doesn't apply to a business with average gross receipts of $26 million or less for the three prior tax years. Thus, you might be able to avoid this limit completely, especially if you defer some income to 2020.

Tip: If you're still hit by the business interest deduction limit, you can carry forward the excess indefinitely until it is deducted.

4. Book business travel deductions. Generally, you can deduct travel expenses incurred primarily for business purposes. For instance, you might move up a cross-country trip to a client scheduled for January into December. As a result, you can write off the round-trip airfare, lodging and 50% of the cost of your meals in 2019, plus incidentals like cab or Uber or Lyft fares and dry cleaning expenses. (Of course, expenses for personal pursuits are nondeductible.)

Tip: Use an "accountable plan" for easier record-keeping.

5. Nail down deductions for repairs. You can currently deduct minor repairs to a business building, like fixing a leak or replacing a broken window. Conversely, the cost of major improvements must be capitalized and added to the property's basis. If you have the cash on hand, make minor repairs before the end of the year to increase your deduction for 2019.

Tip: Don't arrange repairs at the same time as improvements. The IRS may say that entire cost, including the repairs, constitutes an improvement under a general betterment plan.

6. Launch a new business. Thanks to the TCJA, the graduated corporate tax rate structure with a top rate of 35% has been replaced by a flat 21% rate, encouraging more business ventures. What's more, you can take advantage of a special write-off of up to $5,000 of your qualified start-up expenses paid this year (subject to a phaseout for expenses above $50,000). This includes costs that would normally be deductible by an on-going business. But you must actually be "open for business" before 2020, so begin offering goods or services in 2019.

Tip: Start-up expenses above $5,000 generally must be amortized over 180 months. Consult with your tax professional for the detailed rules.

7. Provide family leave benefits. The TCJA authorizes a temporary tax credit for wages paid to employees while on family or medical leave. The credit is generally equal to 12.5% of wages if an employee is paid 50% of normal wages while on leave, increasing to a maximum of 25% for higher

payment amounts. To qualify for this tax break, you must offer up at least two weeks of paid family or medical leave annually to full-time employees. Currently, this credit is scheduled to expire at the end of 2019.

Tip: The credit could be extended by a subsequent act of Congress.

Business Tax Deduction Strategies #2

Speed up your building write-offs

It generally takes 39 years—nearly a half century—to completely recoup the cost of a commercial building through depreciation deductions. By that time, you or your business may no longer be around. But you can move faster by taking matters into your own hands.

Strategy: Conduct a cost-segregation study. If you qualify, you can use the study to write off certain building components in just five or seven years, without applying to the IRS for an accounting method change.

That's not to say that the IRS will give you a free pass to write off separate building components over a short period of time. It often challenges cost-segregation studies used by taxpayers to justify faster write-offs. But you may still pass inspection under the latest IRS guidance.

Here's the whole story: Under the Modified Accelerated Cost Recovery System (MACRS), the cost recovery period for a commercial building is 39 years. On the other hand, personal property can be written off over just five years if the property has a useful life between four to 10 years. (A seven-year period may be used for property with a useful life between 11 and 15 years.) As a general rule, "personal property" is defined in the regulations as tangible depreciable property other than buildings and their structural components.

Several recent court cases have held that parts of a commercial building can be treated as personal property if they relate only to the equipment used in a business located in the building instead of maintenance or operation of the building. This can include components such as specialized electrical systems, plumbing systems in restaurant kitchens and removable carpeting.

Because the write-off periods for components often depend on the use of the building, taxpayers repeatedly commission tax pros and other experts to provide cost-segregation studies with breakdowns of the write-off periods for

various components. After years of uncertainty, the IRS recently issued a 115-page Audit Techniques Guide (ATG) to help its agents determine when a cost-segregation study is up to snuff.

No secrets: The IRS isn't hiding anything up its sleeve. Both taxpayers and their cost-segregation experts can check out the ATG. The guidance explains why cost-segregation studies are performed, how they are prepared and what agents should review. If anything, the ATG may help you nail down faster write-offs when they are warranted.

To be on the safe side, enlist the services of a tax pro if you think you would benefit from a cost-segregation study of building components. The tax pro can tell you where you've gone wrong in the past and how to change things in the future.

Tip: When it makes sense, you can reclassify certain components and file amended returns for the appropriate tax years.

Business Tax Deduction Strategies #3

Serve up a menu of fringe benefits

How much of your budget is allocated to fringe benefits? In the past, this may have represented just a sliver for many C corporations, but now employee benefits frequently take a much larger piece of the pie. The trick is to keep costs down without hurting morale by reducing or eliminating benefits.

Strategy: Set up a Section 125 "cafeteria plan." As the name implies, your company provides a menu of fringe benefits for employees to pick and choose from. Thus, participating employees only take advantage of those benefits they truly want, helping to keep your company's costs down.

Usually, contributions to a cafeteria plan are made through a salary reduction plan. The contributions are exempt from federal income tax withholding and employment taxes. So it's a win-win situation for employers and employees.

Here's the whole story: A cafeteria plan must be a separate written plan maintained by an employer for employees under Section 125 of the tax code. It gives participants the opportunity to receive certain benefits on a pretax basis. Participants in the cafeteria plan must be permitted to choose among at least one taxable benefit, such as cash, and one qualified (tax-free) benefit.

The written cafeteria plan must specifically describe all benefits and establish rules for eligibility and elections. This is the only way in which an employer can offer employees a choice between taxable and nontaxable benefits without having the choice cause benefits to become taxable. A plan offering employees only a choice of taxable benefits is not a Section 125 plan.

The plan can make benefits available to employees, their spouses and dependents. It may also include coverage of former employees, but it can't exist primarily for ex-employees.

Contributions are made pursuant to salary reduction agreements between the employer and the employee in which the employee agrees to contribute a portion of his or her salary on a pretax basis to pay for the qualified benefits. Salary reduction contributions are not considered wages for federal income tax purposes. In addition, those amounts are generally not subject to Social Security and Medicare taxes or FUTA.

However, group-term life insurance exceeding $50,000 of coverage is subject to Social Security and Medicare taxes, but not FUTA tax or income tax withholding, even if it is provided as a qualified benefit in a cafeteria plan. Adoption assistance benefits provided in a cafeteria plan are subject to Social Security, Medicare and FUTA taxes, but not income tax withholding. If an employee elects to receive cash instead of any qualified benefit, the payment is treated as wages subject to all employment taxes.

Compare cafeteria plans to FSAs

How does a cafeteria plan differ from a flexible spending arrangement (FSA)? An FSA is a form of a cafeteria plan benefit, funded through salary reduction contributions. Then FSAs can reimburse employees for expenses incurred for certain qualified benefits. It may be offered for dependent care assistance, adoption assistance and health care reimbursements, within certain limits (e.g., annual contributions for health care can't exceed $2,750 for 2019). However, employees must cope with the "use-or-lose" rule on funds.

Under the use-it-or-lose-it-rule, any amount left over in an employee's account at the end of the year is forfeited. An employer can choose to allow a 2½-month "grace period" after the end of the year for using up funds.

Another alternative: The IRS also allows employers to allow participating employees to carry over up to $500 in unused FSA funds to the next year. But an employer can't allow both the carryover provision and the grace period. It's one or the other.

Tip: Generally, there are no special filing requirements for cafeteria plans.

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Business Tax Deduction Strategies # 4

Take a tax short-cut for business driving

The tax law imposes strict record-keeping requirements for business driving expenses. But there's an easier way for busy business owners.

Strategy: Use the standard mileage rate. If you opt for this method, you don't have to keep all the detailed tax records associated with business vehicles.

For 2019, the standard mileage rates for the use of a car (vans, pickups or panel trucks) will be: **58 cents** per mile for business miles driven and 20 cents per mile driven for medical or moving purposes.

Here's the whole story: If you deduct your actual expenses of business driving, you must account for every last penny you spend, including the cost of gas, oil, tires, insurance, repairs, licenses, registration fees, etc. With the standard mileage deduction, you don't have to track all your actual expenses, although you still must keep records of the mileage for each business trip, the date, the destinations, the names and relationships of the business parties and the business purpose of the travel.

To arrive at the deduction amount, simply multiply your business miles traveled, as evidenced by a contemporaneous diary or other log, by the IRS-approved rate.

Note that the standard mileage rate can't be used if you:

- Operate cars for hire (e.g., taxis and limos).
- Use five or more cars at a time (e.g., fleets).
- Have claimed an accelerated depreciation deduction for the vehicle in the past.
- Have claimed a Section 179 deduction for the vehicle in the past.
- Have claimed actual expenses after 1997 for a vehicle that is leased.
- Are a rural mail carrier who has received a qualified reimbursement.

Of course, if you can tolerate the hassle, you'll probably bag a bigger deduction by keeping track of all your actual expenses, especially when you include the allowance for depreciation.

Tip: Determine what's best for your situation.

Business Tax Deduction Strategies # 5

Find safe harbor for payroll taxes

The IRS and taxpayers often clash over the classification of workers as employees versus independent contractors. Fortunately, you can rely on a special rule to bail you out if you're under the gun.

Strategy: Request "Section 530 relief." Essentially, you can avoid dire tax consequences if there are reasonable grounds for your claim that a worker is an independent contractor.

Despite a common perception, the name for this safe-harbor rule doesn't stem from a tax code section. It's based on a provision in the Revenue Act of 1978.

Here's the whole story: It costs more for employers to treat workers as employees than independent contractors. For instance, in 2019 you must pay the 6.2% Old Age, Survivors and Disability Insurance (OASDI) tax on wages up to $132,900 and the 1.45% HI tax on employee wages. But you don't owe those taxes for independent contractors.

In addition, a business may incur costs for health insurance, retirement plan contributions and other fringe benefits for employees. Again, independent contractors aren't covered.

However, you can't circumvent the rules simply by calling a worker an independent contractor. In fact, if a worker is determined to be misclassified, your business will be liable for back taxes plus penalties and interest, possibly adding up to thousands of extra tax dollars.

Traditionally, the IRS used a list of 20 factors to determine worker status, but it recently consolidated the key issues into three categories.

1. Behavioral control. If a business has the right to direct and control the means by which the worker performs required services, it's a sign the worker should be classified as an employee. Conversely, directions from the employer concerning what should be done—but not necessarily how it should be done—indicate independent contractor status.

2. Financial control. The financial arrangements between the parties often show which party has the right to control the job. For example, the ability to realize a profit or incur a loss is a strong indicator that the worker is in control and is an independent contractor.

3. Relationship between the parties. The legal and contractual relationship between the parties is also important in determining a particular worker's status. Providing certain benefits to the worker (e.g., paid vacation days, insurance and retirement plan benefits) is an employee trait. Similarly, the right to discharge the worker without any penalty is indicative of an employer-employee relationship.

After examining these three categories, you should have a pretty good idea of where you stand. However, if the IRS challenges your determination of independent contractor status, you can fall back on the Section 530 defense. Under Section 530, an employer is exempt from employment tax liabilities if it meets the following requirements:

- The company hasn't treated the worker as an employee for any period and does not treat workers in similar positions as employees.
- All federal returns required to be filed by the company (including information returns) consistently treat the worker as an independent contractor.
- The company has a "reasonable basis" for not treating the worker as an employee. For example, your claim may be based on past cases or rulings, an IRS audit or the longstanding practice of a significant segment of the same industry. Also, relying on the expert opinion of a tax professional will boost your chances for obtaining Section 530 relief.

Tip: The stakes are high, so be sure you're on firm ground if you designate workers as independent contractors.

Business Tax Deduction Strategies # 6

Conjure up extra plan benefits

When your business is thriving and you're in the prime of life, you should try to salt away as much money in your qualified retirement plans as you possibly can. But the tax law imposes annual limits on contributions that may hinder your efforts.

Strategy: Set up a "top-hat" plan. Despite the name, it involves no sleight of hand, but the results can be quite magical.

Presto! This way your company can provide extra benefits to higher-ups like yourself without bumping up against the usual restraints for qualified retirement plans.

Here's the whole story: A top-hat retirement plan is a nonqualified deferred compensation plan covered under the landmark Employee Retirement Income Security Act (ERISA) of 1974. ERISA imposes a wide range of funding, participation, vesting and other fiduciary requirements on benefit plans providing retirement income or deferred compensation to employees. But favorable exceptions may apply to a select group of employees (i.e., the top-hat group).

Top-hat plans have generated more interest among higher-ups in recent years due to the restrictions on qualified retirement plans, especially as they relate to high wage-earners. For example, the maximum annual compensation that may be taken into account for retirement plan purposes in 2019 is $280,000 (up from $275,000 in 2018).

As a result, an employer may want to use a nonqualified top-hat plan to reward long-standing employees or to attract or retain other valuable performers without being restricted by such limitations.

Be aware that a top-hat plan comes at a tax price. Under rules instituted after 2004, amounts that are deferred under a nonqualified plan must be included in taxable income unless there is a substantial forfeiture risk. Thus, the plan should be carefully drafted with the tax aspects in mind.

Also, top-hat plans must meet special reporting and disclosure rules under ERISA. For example, a plan description must be filed with the U.S. Department of Labor (DOL) within 120 days of inception. Plus, an employer may have to provide plan documentation if the DOL requests it. If the one-time filing requirement isn't met, the full reporting and disclosure rules of ERISA may be imposed.

Which employees may be covered under a top-hat plan? This is somewhat of a gray area, but here are some general guidelines:

- A top-hat plan can't extend coverage beyond a select group of managers or highly-compensated employees.
- The group must be small in comparison to the total workforce.

- The average income of the plan participants must be higher than the average income of the other employees.
- The participants must be in a position to affect or substantially influence the design and operation of the plan. Example: In a typical small business, a top-hat plan might cover only the company's owner, officers and leading salespeople. Similarly, a plan might be set up to benefit physicians in a medical practice.

Tip: This type of plan is complex, and implementation is best left to the professionals. Consult with a benefits specialist.

Business Tax Deduction Strategies # 7

Get credit for starting a retirement plan

If you recently acquired or started a new business, or if it took several years for your company to become profitable, you may be ready to put more money into employee benefit plans like a qualified retirement plan.

Strategy: Get your retirement plan going before the end of the business tax year. This will entitle your business to a tax credit—a dollar-for-dollar reduction of the company's tax bill—for plan startup costs.

The credit for starting a retirement plan is available for a 401(k), Simplified Employee Pension (SEP), Savings Incentive Match Plan for Employees (SIMPLE) or other qualified plan.

The credit is equal to 50% of your ordinary and necessary eligible startup costs up to a maximum of $500 per year. To qualify for the credit, you must meet the following requirements.

- Your company had 100 or fewer employees who received at least $5,000 in compensation from you in the preceding year
- Your company had at least one plan participant who was a non-highly compensated employee
- In the three tax years before the first year your company is eligible for the credit, your employees weren't substantially the same employees who received contributions or accrued benefits in another plan sponsored by you, a member of a controlled group that includes you or a predecessor of either.

The credit can be claimed for the ordinary and necessary expenses of setting up and administering the plan and educating employees about it. You can claim the credit for each of the first three years of the plan and may choose to begin claiming the credit in the tax year before the tax year in which the plan becomes effective.

The credit is part of the general business credit. It can generally be carried back or forward to other tax years if you can't use it in the current year.

Finally, note that you can't deduct both startup costs under another tax law provision and claim the credit for the same expenses.

Tip: Claim the credit on Form 8881, *Credit for Small Employer Pension Plan Startup Costs.*

Business Tax Deduction Strategies # 8

Take depreciation to the max

If it suits your needs, make 2019 the "biggest and best" year ever for depreciation-related deductions.

Strategy: Maximize the deductions for Section 179 and bonus depreciation. Both tax breaks were enhanced by the Tax Cuts and Jobs Act (TCJA).

In fact, the new law provides an effective 1–2 combination that's hard for business taxpayers to beat.

1. Section 179 deduction. Under Section 179 of the tax code, a business can "expense" the cost of qualified new or used business property, up to a specified limit for the year.

For this purpose, qualified property includes business assets with a cost recovery period of 20 years or less, depreciable software that is not amortized over 15 years, qualified real property expenditures and water utility property.

Notably, the TCJA doubled the maximum annual deduction from $500,000 to $1 million, subject to inflation indexing for tax years beginning after 2017. The inflation-adjusted maximum for tax years beginning in 2019 is

$1,020,000.

This alone might cover all or most of your annual business property purchases. But you should be aware of a couple of limitations:

- The Section 179 deduction can't exceed your net taxable income from your business activities. For example, if your company generates $750,000 a year in net taxable income and acquires $800,000 in business property, the deduction is limited to $750,000 unless you have additional business income from other sources (including salary income).

- The maximum Section 179 deduction is reduced on a dollar-for-dollar basis above a specified threshold. Under the TCJA, the threshold is increased from $2 million to $2.5 million, subject to inflation indexing ($2.03 million for tax years beginning in 2019).

2. First-year bonus depreciation. Prior to the TCJA, you could also claim a first-year bonus depreciation deduction equal to 50% of the cost of qualified new (but not used) property. The TCJA authorizes 100% bonus depreciation for qualified property placed in service after September 27, 2017 through 2022. It also extends the bonus depreciation break to qualified used, as well as new, property.

Beginning in 2023, 100% bonus depreciation is phased out as follows:

- 80% in 2023.
- 60% in 2024.
- 40% in 2025.
- 20% in 2026.

After 2026, bonus depreciation is no longer available. Thus, you can buy and place in service lots of qualified property in 2019 and take full advantage of both the enhanced Section 179 deduction and 100% first-year bonus depreciation. If there is anything left over after these two tax breaks are used—doubtful—you can still claim regular depreciation deductions for the remainder under the Modified Accelerated Cost Recovery System (MACRS). With MACRS, deductions are typically claimed over five, seven or 15 years.

Best of all, you get a whole year's worth of Section 179/bonus depreciation deductions no matter how late in the tax year the property is placed in service.

Business Tax Deduction Strategies # 9

Beware the home office tax trap

When you sell your principal residence, you can often exclude most, if not all, of the capital gain from the sale. But there's a little-known tax trap for some business owners.

Alert: If you've claimed home office deductions in the past, you must recapture the tax benefits of the depreciation that you claimed for the office portion of the home. This could result in a significant and unexpected tax in the year of the sale.

What's more, the depreciation recapture income may be taxed at a higher rate than a regular long-term capital gain.

Here's the whole story: As long as you've owned and used your home as your principal residence for at least two of the previous five years, you can exclude from the federal capital gains tax up to $250,000 of home sale profit for single filers or $500,000 for joint filers. This home sale gain exclusion can potentially be claimed each time you sell a principal residence (subject to some limitations).

However, if you've been using a room or other area as a deductible home office for your principal place of business or as a place where you regularly meet or deal with clients, patients or customers, the depreciation recapture provision can come into play.

The catch: Under the latest tax rules, you must forfeit the home sale gain exclusion for the portion of the gain that is equal to any depreciation deductions claimed for the home office for periods after May 6, 1997. Then you are taxed on that part of the gain.

To make matters worse, this recapture rule technically applies to "allowed or allowable" depreciation, according to the express language of the law, even if you never actually claimed the depreciation. However, if you can prove by records (i.e., prior tax returns) that the "depreciation deduction allowed was less than the amount allowable," you may avoid the recapture tax.

There's another wrinkle. Normally, the maximum federal income tax rate on long-term capital gains (i.e., for property held longer than one year) is 20%, and that rate only applies to high-income taxpayers. But income from real

estate depreciation recapture is subject to a special 25% maximum tax rate. So you may owe a higher tax rate on the gain from the home office depreciation recapture.

Does this mean you should not claim home office deductions even if you qualify? Not necessarily. Most tax experts agree that the ongoing tax benefits from home office deductions outweigh the recapture tax detriment you may face in the future. For instance, in addition to depreciation, a taxpayer is able to annually write off direct home office expenses and a percentage of indirect expenses—like utilities, insurance, mortgage interest, property taxes, etc.—based on the portion of the home used as a deductible office.

Tip: There's no recapture rule for other previously deducted home office expenses when you sell the property.

Business Tax Deduction Strategies # 10

Proceed with transportation benefits

The Tax Cuts and Jobs Act (TCJA) eliminated the employer tax deduction for qualified transportation benefits, effective in 2018. Unlike many TCJA changes for individuals, this unfavorable change is permanent.

Strategy: Don't hit the brakes just yet. If certain requirements are met, these benefits are still tax free to employees, within the allowable limits.

Thus, this remains an attractive fringe benefit for employers to offer.

Here's the whole story: Prior to the TCJA, payments made by an employer for qualified transportation fringe benefits were deductible by the employer and tax free to recipient employees, up to certain monthly limits. There are three main types of transportation fringe benefits.

1. Mass transit passes. Under the IRS-approved rules, a transit pass includes any pass, token, fare card, voucher or similar item entitling a person to ride free of charge or at a reduced rate on mass transit or in a vehicle seating at least six adults (not including the driver) if a person in the business of transporting persons for pay or hire operates it. Mass transit includes transportation by bus, rail or ferry.

2. Commuter highway vehicle expenses. A commuter highway vehicle is any highway vehicle seating at least six adults (not including the driver). It must be reasonably expected that at least 80% of the vehicle mileage will be for transporting employees between their homes and workplaces with employees occupying at least 50% of the vehicle's seats (not including the driver's seat).

A tax-free arrangement may involve vanpooling in one of the following forms:

- **Employer-operated vanpools:** The employer either purchases or leases vans so employees may commute together to work, or the employer contracts with and pays a third party to provide the vans, and pays some or all of the costs of operating the vans.
- **Employee-operated vanpools:** Employees independently operate a van for commuting purposes.
- **Private or publicly operated vanpools:** Alternatively, a vanpool can be operated either privately or publicly. The arrangement qualifies if the van seats at least six adults (excluding the driver), but the "80/50 rule" (see above) doesn't have to be met.

3. Parking allowances. This covers employer- provided parking for employees on or near the business premises. It also covers fees for parking on or near the location from which employees commute using mass transit, commuter highway vehicles or carpools (e.g., a park-and-ride lot at the train station). However, it doesn't extend to parking at or near the employee's home.

Tip: For 2019, the maximum tax-free allowance for transit passes and commuter van pooling (separately or combined) is $265 per month. The separate maximum tax-free allowance for parking is also $265 per month.

Business Tax Deduction Strategies # 11

Offer tax-free awards to employees

Is your company in a rut? Here's a low-cost way to get the creative juices flowing.

Strategy: Initiate a program for employee achievement awards. If you handle things the right way, the prizes are tax free to the employees and fully

deductible by your company. Plus, you might boost productivity, as well as the spirits of workers.

However, you can't use an awards program as a means to disguise taxable compensation. For example, employee awards that are handed out at the same time as annual salary reviews may be suspicious. Similarly, the program can't be substituted for a cash bonus plan.

Here's the whole story: The tax law defines an "achievement award" as an item of tangible personal property granted to an employee for either length of service or promoting safety. This includes items ranging from gold watches to smartphones. But cash or cash-equivalent gifts (e.g., gift certificates) don't qualify as tangible personal property.

The plan must meet these requirements to qualify for favorable tax treatment.

- Any employee may receive a length-of-service award, but safety awards cannot be given to managers, administrators, clerical workers and other professional employees. Also, an award doesn't qualify if the company granted safety awards to more than 10% of the eligible employees during the same year.
- The award must be part of a "meaningful presentation." This doesn't mean you have to throw a lavish affair, but the occasion should be marked by a ceremony befitting the occasion.
- The employee must have worked for the company a minimum of five years to receive a length-of-service award. Note: An employee isn't eligible for this type of award if he or she received a length-of-service award during the current year or the previous four years.
- How much can an employee receive tax free? It depends on whether the award is nonqualified or qualified. With a nonqualified award, the annual maximum is $400. The maximum for a qualified award is $1,600 (including any nonqualified awards). Any excess can't be deducted by the employer and is taxable to the employee.

For a "qualified" award, two additional requirements must be met.

1. The award must be paid under a written plan that doesn't discriminate in favor of highly compensated employees.
2. The average cost of all employee achievement awards granted during the year cannot exceed $400. In determining the average cost, awards of nominal value (i.e., $50 or less) aren't taken into account.

Tip: Employees are usually more motivated if there's a goal to attain.

Business Tax Deduction Strategies # 12

Cash in on biz stock bonanza

The tax law provides a powerful tax incentive for investing in the stock of your own business or small business.

Strategy: Buy more "qualified small business stock" (QSBS) issued by the company. As long as certain requirements are met, you can exclude up to 100% of the taxable gain you would otherwise realize from a future sale of the stock. In other words, you can pocket the entire gain federal income tax free!

The tax break may also attract cash infusions from outside investors. So both you and others—perhaps some of your relatives—can benefit from the provision.

Here's the whole story: Prior to 2009, an investor could exclude capital gains tax on up to 50% of the gain from the sale of QSBS held at least five years. The stock must have been directly issued to the owner or given to him or her by the original recipient of the shares. Other requirements apply to the stock being issued.

But there was a catch: The capital gains tax for all investors in QSBS is 28%. Because a QSBS investor was taxed on half of the gain, the actual tax rate was 14% (50% of 28%). In contrast, the maximum tax rate for long-term capital gain (i.e., gain on stock held for more than a year) for most investors was 15%—or just one percent higher.

Thus, the tax break for QSBS was gradually boosted to the current 100% gain exclusion deal, which was then made permanent. So you can count on this big tax break going forward.

For example, say you invest $1.5 million to buy additional stock in your company on October 1, 2019. If you hold the stock for five years, you can sell your QSBS for up to $16.5 million (10 x initial investment of $1.5 million) + $1.5 million, without owing any federal capital gains tax. Once you subtract

your initial investment, you'll show a $15 million capital gain, none of which is taxable.

Tip: Under another QSBS break, there is no federal capital gains tax from a sale of QSBS if you roll over the proceeds into new QSBS within 60 days.

Business Tax Deduction Strategies # 13

Feather your 401(k) nest egg

If you're like many people, you need to save more for retirement. But that's easier said than done, especially if you're currently strapped for cash.

Strategy: Increase your 401(k) deferral after clearing the Social Security wage base. You can allocate all or part of the payroll tax savings to the 401(k) contributions.

This is a relatively painless way to add to your nest egg because your take-home pay won't be reduced.

Here's the whole story: With a 401(k) plan, you can defer up to $19,000 of your salary to your account in 2019 ($25,000 if you're age 50 or over). In addition, your company may provide matching contributions up to stated limits. These pretax dollars can grow without current tax erosion until they are withdrawn.

The problem is that it's hard to set aside money in your 401(k) while you're raising a family. But you can boost your deferrals more easily after you exceed the annual Social Security tax wage ceiling for the year ($132,900 for 2019) and allocate amounts that were previously spent on payroll taxes toward 401(k) contributions.

For simplicity, let's say your salary exceeds the Social Security wage ceiling early in November. If you are paying, say, $750 a month in Social Security tax, you can take that extra $1,500 ($750 x 2 months) and contribute it to your 401(k) account. In addition, you may be eligible for an employer-matching contribution on that amount. So you might be able to stash close to an extra $2,000 in your account that will continue to compound tax free over time.

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And you don't have to stop this year. You can use this strategy year after year to boost your retirement savings for the future.

Plus, you probably won't notice any financial difference because your monthly take-home pay will remain the same. So you can continue to spend the same amount on current expenses as you did before. Then you can go back to your previous arrangement in January.

Tip: Even if it costs you a little in reduced take-home pay, this is a worthwhile strategy for retirement savers.

Steer your kids into a Roth IRA

Suppose your teenaged child worked this past summer and raked in the money.

Typically, your progeny might have an eye on the latest video game or smartphone, but there may be better ways for him or her to spend the hard-earned cash.

Strategy: Encourage your child to put funds into a Roth IRA. Even though retirement is a long time away, this can be a smart financial move.

But how do you convince a high school student to contribute to a Roth? Explain the tax breaks. If, for example, a 17-year-old is able to sock away $5,500 a year (the current maximum) and receives a hypothetical 7% annual return, the pot will grow to a staggering $2,235,909 when he or she is ready to retire at age 67!

In addition, future qualified distributions from a Roth are 100% tax free. Although you generally have to wait until age 59½ to qualify for this tax benefit, earlier distributions may be wholly or partially tax free under IRS ordering rules.

Finally, if you want to take some, or even all, of the sting out of the situation, give your teenager a cash gift up to the amount of the Roth contribution. This is perfectly legit as long as the child has the requisite compensation. Plus, there's no gift tax liability under the annual gift tax exclusion. For 2018, you could have given each recipient up to $15,000 without paying any gift tax.

Tip: This is a good opportunity to school your child on tax-sheltered accounts.