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On Small Business

Pro Tips: How to Cut Your Tax Bill in the Final Weeks of 2019

By **Laura Davison | Bloomberg**

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Republicans pledged that their 2017 tax overhaul would eliminate loopholes and make filing taxes as simple as filing out a postcard. That hasn't exactly panned out, but there are still several ways to minimize your 2019 tax bill before the end of the year.

Accountants and tax lawyers have had two full years to analyze how all the changes contained in the tax overhaul affect their clients. Tax professionals have found a slew of ways to reduce your taxable income and take full advantage of new tax breaks to keep payments to the Internal Revenue Service as low as possible.

The main goal of any year-end strategy is to increase the number of tax credits and deductions you can claim, while lowering the amount of income that is subject to tax. Here are some last-minute strategies to cut your tax bill that will come due in April.

Maximize the Small Business Tax Break

If you're self-employed or a small business owner you may be eligible for a 20% deduction off your business income. But it can be subject to lots of limitations depending on your field, the amount you invest in equipment, or how much you pay employees. If you're below certain thresholds -- $321,400 for a couple or $160,700 for an individual in 2019 -- you automatically get the tax break.

For people above those limits, there are several ways to legally reduce your taxable income to get under the caps, which is particularly important for doctors, lawyers and accountants who can't claim the deduction at all if they are above those levels.
Of course, make sure you're maxing out any tax-deferred retirement accounts and health savings accounts, if possible.

Self-employed individuals can also reduce their taxable income by as much as $225,000 if they make contributions to a defined benefit retirement plan.

“The next three weeks are really, really key to getting those plans drafted,” said Ed Reitmeyer, a regional partner at accounting firm Marcum.

Business owners could also increase employee wages by paying one-time bonuses to boost their payroll levels enough to qualify for the 20% deduction, said Grethell Anasagasti, a principal at accounting firm MBAF. If the company is structured as an S corporation, a closely held company, those bonuses can also be paid to the officers (or owners) of the company, she said.

Divide Businesses Into Two

If you’re in a field that doesn’t qualify for the 20% small business deduction -- including health, law, consulting, athletics, financial and brokerage services -- there are still ways to potentially claim the deduction on some of your earnings.

If part of your income stems from sources that do qualify for the deduction, separate that potion of the business into a new entity to put a barrier between the profits that can get the tax break and those that can’t.

For example, an optometrist won’t qualify for the tax break from the work they do seeing patients, but profits from selling glasses and contact lenses would qualify. Ditto for an technology consultant who also sells hardware.

Donate (After Consulting a Tax Adviser)

Tax professionals are seeing a large uptick in the use of donor advised funds -- tools that allow people to give money, deduct the donation up front, and distribute the funds to charity later.

The 2017 tax law increased the standard deduction to about $24,000 for a couple and limited some deductions, including one for state and local taxes. The result is that many people have to donate much more than in the past to get above that $24,000 limit and file an itemized return. But the right timing of the donations can lead to big tax savings.

“It’s really tough for people to get over that $24,000 hurdle,” said Brad Sprong, head of Family Office and Private Client Services at accounting firm KPMG. He’s advising clients to bunch all their donations to a donor-advised fund in one year to get the tax benefit for those contributions, and then take the standard deduction for the next few years.

What you donate also matters, Sprong says. He advises clients to look for alternatives to cash, such as appreciated securities, because the deduction amount is what the asset is worth, not necessarily what you paid for it. And in a low-interest rate environment, donating borrowed money can also have benefits if the tax breaks outweigh the loan costs.

Those who are 70 1/2 and older must start taking distributions from their individual retirement accounts, which generate a tax bill for the recipient. However, those taxpayers can donate as much as $100,000 directly from their IRAs in lieu of a distribution -- avoiding the tax on that money.

Estate Tax Preparation

The 2017 tax law approximately doubled the estate tax exemption, which gives wealthy taxpayers some time to make plans for their assets when they die. The lifetime exclusion for 2019 is $11.4 million for an individual or twice that for a married couple, and the annual gift tax limit is $15,000.

The IRS has said it won't make those gifts taxable if a future Congress votes to lower the estate tax limit. But still, it's smart to make those gifts now, said Karen Goldberg, a principal in the Private Wealth Advisory Group at EisnerAmper. This doesn't have to be done by the end of 2019, but waiting beyond the 2020 election risks the political mood shifting in favor of estate taxes.

"If a new administration comes in and changes the law, you don't want to wait until the last minute," she said.

Opportunity Zone Deadline

A key deadline for opportunity zones -- an incentive including in the 2017 tax law for taxpayers to invest capital gains income into distressed areas -- runs out at the end of the year.

Taxpayers can defer the tax bill on their investment until the end of 2026, or whenever they sell. Additionally, if they invest by the end of this year, they can get a 15% "basis step up," meaning that they are only taxed on 85% of their investment. If they invest after this year, they have to pay tax on 90% of the money the contributed.

Additionally, that money grows tax-free while invested in the fund, giving investors another reason to consider opportunity zones. Investors have 180 days from the time they sell stock or a business to put that money into an opportunity zone fund.

Mortgage Tax Break Workaround

The 2017 tax law also restricted the mortgage interest deduction to loans equal to or less than $750,000. The result is that some taxpayers buying expensive homes are finding other ways to finance their purchases, Sprong said.

Instead of taking out a mortgage for the full amount, some taxpayers are taking out a mortgage up to the $750,000 limit, and then in a separate transaction borrowing the additional funds through a regular loan.

Taxpayers can still get some benefits from this deal, especially if interest rates remain low, Sprong said. The interest from that loan can be deducted against investment income. If that financing was part of the mortgage, there wouldn't be any tax breaks for that interest.

"If they are really tax savvy, they are doing this," he said.