

## The “Small” Business Tax Break

It’s not for everyone

Victoria S. Carlin

vcarlin@dopkins.com

June 2018

There has been a lot of coverage in the press about a tax break available for “small businesses”. Unfortunately, that description has been very misleading on two fronts. While there is a tax break available to what are called pass-through businesses, it’s not just for small businesses and not everyone will qualify. Although we will talk about the deduction itself in a subsequent blog, here we will talk about just who will get that “big beautiful tax break” and what opportunities might be available to change your business operations or structure so you can qualify.

When Congress came up with the idea of the new deduction, they were targeting any business where the income passes through to the individual tax return. This means that any sole proprietorship, partnership, LLC not taxed as a corporation, or S Corporation may qualify for the new deduction, “**MAY**” being the key word. There are quite a few land mines that must be navigated.

But first, the idea that this is strictly for small business is incorrect. As long as the pass-through business can successfully navigate asset and wage limitation tests, they will be able to take the deduction. This means a business as large as the Trump Organization will be able to use the deduction just like the local plumber.

### **So who will not qualify?**

The largest group that may not qualify are those that Congress has grouped together and called “Specified Services”. The new law defines a Specified Service as “Any trade or business involving the performance of services in the fields of health, law, accounting, actuarial science, performing arts, consulting, athletics, financial services, brokerage services, or any trade or business where the principal asset of such trade or business is the reputation or skill of 1 or more of its employees or owners; or any trade or business which involves the performance of services that consist of investing and investment management, trading, or dealing in securities, partnership interests, or commodities.”

Also any business that does not have sufficient non-owner payroll or depreciable property will not qualify if the owner’s personal return taxable income is more than \$415,000 married filing joint (\$207,500 for everyone else).

This is where it may be beneficial to revisit your current structure in light of these limitations. Unfortunately, we are currently waiting for more guidance from the IRS on exactly who is going to fall into these categories. All is not doom and gloom, Congress did provide a small loophole for these service businesses. If the owner’s taxable income falls below that magical \$415,000 mentioned above, they may still qualify for some level of the deduction.

**What does this all boil down to?**

Good old fashioned tax planning at this time is extremely important. Not only should you review your business structure and practices to maximize what qualifies for the deduction but also to take advantage of other tax breaks out there if you are one of the unlucky "Specified Services".

**For more information, please contact Victoria S. Carlin at [vcarlin@dopkins.com](mailto:vcarlin@dopkins.com).**



**Victoria Carlin, CPA**

**Tax Manager**

[vcarlin@dopkins.com](mailto:vcarlin@dopkins.com) ▪ (716) 634-8800

Victoria has over 25 years of experience in providing tax consulting, compliance and tax audit representation to closely held businesses and the owners of closely held businesses. She delivers a full range of tax services in covering federal and multi-state laws and regulations for partnerships, S and C corporations, and individuals.