



**CORDASCO  
& COMPANY P.C.**

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Certified Public Accountants

**2018**

**YEAR-END INCOME TAX PLANNING  
FOR CORPORATE AND NON-CORPORATE BUSINESSES**  
*Condensed Overview*

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## 2018 YEAR-END INCOME TAX PLANNING FOR BUSINESSES

### INTRODUCTION

It's that time of year when businesses should start developing year-end planning strategies. Late in 2017, Congress passed the "**Tax Cuts and Jobs Act**" (TCJA) which represents the most substantial tax reform legislation in over 30 years. Since the vast majority of its provisions **are first effective in 2018**, we have an array of new provisions that must be considered for this year's year-end planning. For example, 2018 will be the first year we must consider changes under TCJA that: Reduce tax rates for C corporations; Eliminate the corporate AMT; Allow a 20% Deduction for individual owners of certain proprietorships, partnerships and S corporations; and Allow accelerated up-front write-off for an ever-expanding group of business assets.

Despite this backdrop of significant tax changes, many businesses should still benefit from traditional year-end tax planning strategies that include deferring "*income*" to a later year and accelerating "*deductions*" into the current year. Consequently, this letter is intended to remind you of the time-honored year-end tax planning techniques you should be considering for your business. We also identify new wrinkles that the recent tax changes may bring to these strategies.

**Caution!** Over the last few months, the IRS has been releasing guidance on various TCJA provisions. However, as we complete this letter, we are still waiting for further IRS clarifications on several important provisions. We closely monitor these IRS releases on an ongoing basis. Please call our Firm for the latest IRS notifications and announcements regarding any TCJA provision that we do not address in this overview.

**Be careful!** Although this overview contains many planning ideas, you cannot properly evaluate a particular planning strategy without calculating the overall tax liability for the business and its owners (including the alternative minimum tax) with and without the strategy. In addition, this overview contains ideas for Federal income tax planning only. **State income tax issues are not addressed.** However, you should consider the state income tax impact of a particular planning strategy. We recommend that **you call our Firm before implementing any tax planning technique** discussed in this overview, or if you need more information.

## **PAY SPECIAL ATTENTION TO THE NEW 20% DEDUCTION FOR CERTAIN QUALIFIED INCOME**

**Overview.** One of the most significant and far-reaching provisions under TCJA is the new provision that may allow certain individuals to qualify for a **20% Deduction** with respect to **“Qualified Business Income,” “Qualified REIT Dividends,”** and **“Publicly-Traded Partnership Income.”** This deduction is available for **tax years beginning after 2017 through 2025.** The 20% Deduction does not reduce your adjusted gross income (AGI) or impact your calculation for self-employment tax. Instead, the deduction simply reduces your Taxable Income (regardless of whether you itemized deductions or claim the standard deduction). In other words, the 20% Deduction is allowed **in addition to** your itemized deductions or your standard deduction.

**What Type of Income Qualifies for the 20% Deduction?** The following types of income are eligible for the 20% Deduction: Qualified REIT Dividends, Qualified Publicly-Traded Partnership Income, and Qualified Business Income. The rules for determining the 20% Deduction for Qualified REIT Dividends and Publicly-Traded Partnership Income are relatively straightforward and, as expected, generally apply only to those who own an interest in a REIT or Publicly-Traded Partnership. However, the 20% Deduction for **“Qualified Business Income”** is expected to have the biggest impact on the greatest number of individual taxpayers, and in certain situations can be complicated and tricky.

**Who Could Qualify for the 20% Deduction with Respect To “Qualified Business Income” (QBI)?** Taxpayers who may qualify for the 20% Deduction for “Qualified Business Income” (QBI) generally include taxpayers who report certain types of business income as: Individual owners of S corporations and partnerships; Sole Proprietors; Trusts and Estates; and Certain beneficiaries of trusts and estates.

**Planning Alert!** It is not feasible to provide a thorough discussion of the 20% Deduction with respect to **Qualified Business Income (QBI)** in this letter. However, you need to be aware that if you own an interest in a business operation as a sole proprietor, as an S corporation shareholder, or as a partner in a partnership, you could very likely be a good candidate for the 20% Deduction for QBI. Moreover, although taxpayers at all income levels may qualify for the 20% Deduction, in certain situations, it will be easier to qualify for the 20% Deduction for QBI for sole proprietors, S corporation shareholders, or partners in a partnership if their 2018 “Taxable Income” is \$157,500 or below (\$315,000 or below if filing joint return). Consequently, if you are in this situation, please call our Firm because you may have an additional tax incentive to defer taxable income and/or increase deductions that cause your **Taxable Income for 2018 to drop below the \$157,500 or \$315,000 thresholds.**

## **TCJA REDUCES THE CORPORATE TAX RATE TO 21% AND ELIMINATES CORPORATE AMT**

**Reduction in Corporate Tax Rate.** For tax years **beginning after 2017,** TCJA provides for a flat tax rate of 21% (down from a top 35% rate) for regular “C” corporations.

**Planning Alert!** The IRS has confirmed that a fiscal-year C corporation essentially uses a blended tax rate for the fiscal year that includes January 1, 2018. Please call our Firm if you have a fiscal-year C corporation and you need information on determining this blended tax rate for your corporation.

**Corporate Tax Rate on Certain S Corporations That Previously Converted From “C” Corporation Status Is Also 21%!** Before TCJA, a C corporation that converted to an S corporation (converted S Corporation) was potentially subject to a flat 35% corporate built-in gains tax or passive investment income tax. After TCJA, the tax rate on both of these corporate taxes potentially imposed on converted S corporations **is reduced to a flat rate of 21%.**

**Repeal Of “Corporate” Alternative Minimum Tax (AMT).** TCJA **repeals the corporate AMT for tax years beginning after 2017.** A corporation will be allowed a **refundable credit** for each of the **tax years beginning in 2018, 2019, and 2020** equal

to **50%** of unused AMT credit carryovers to those respective years in excess of the regular tax for those years. Any **AMT credit carryover amount** that remains unused after applying it to the **2021** regular tax is 100% refundable. Consequently, the **entire corporate AMT credit** that carries over beyond 2017 will be recouped either as a reduction in post-2017 corporate income tax and/or a refundable credit **no later than 2021**.

**Planning Alert!** The IRS has confirmed that a fiscal-year C corporation essentially uses a blended AMT rate for the fiscal year that includes January 1, 2018.

**Impact of TCJA Changes To Choice Of Business Entity Analysis.** Over the past 30 years, pass-through entities (S corporations and partnerships) have been the entity of choice for most closely-held businesses. C corporations have been in disfavor largely due to the following advantages of pass-through entities: **1)** Single tax on pass-through business income allowing business income to be distributed to the owners without triggering a double tax, **2)** Ability to sell the assets of the business without triggering a double tax on the gain, **3)** Ability to take business losses on the owner's individual return, **4)** Inapplicability of the Accumulated Earnings Tax and the Personal Holding Company (PHC) penalty taxes, **5)** Expanded opportunities for owners of partnerships to transfer appreciated property into or out of a partnership without triggering an immediate taxable gain, **6)** Ability of partners who purchase or inherit a partnership interest to use the so-called 754 election to step-up their basis in partnership assets to equal the basis in their partnership interests, and **7)** Opportunities for S corporation shareholders to minimize their exposure to FICA and SECA taxes.

**Practice Alert!** The Tax Cuts and Jobs Act did not eliminate these advantages!

However, the reduction of the top corporate tax rate of 35% to a fixed rate of 21% for C corporations has caused many owners of pass-through entities to re-evaluate whether they should convert their pass-through entity to a regular C corporation. Although changes in the effective tax rates on business income are important, there are additional tax provisions that should always be considered in determining whether operating as a C corporation or a pass-through entity is best for a particular business enterprise. **There is no single recommendation that applies to all businesses.** The impact of a variety of tax factors must be applied to each particular situation before an informed decision for a particular business can be made. And even then, the analysis is inevitably based, at least in part, on factors and assumptions that might occur in the future but are not necessarily reliable or quantifiable. We are in an ever-changing tax environment. With key Democratic leaders calling for a roll back or repeal of several of the most significant tax breaks for businesses enacted under TCJA, the longevity of the business tax breaks under TCJA is uncertain. Consequently, **Rules of Thumb are unreliable** in deciding whether an S corporation, partnership, or proprietorship should become a C corporation.

**Planning Alert!** If your business is currently operating as a pass-through entity, we will be glad to review your specific situation and determine whether we believe there is a strong "tax" reason to convert to a "C" corporation.

#### **TRADITIONAL YEAR-END TAX PLANNING TECHNIQUES BEFORE AND AFTER TCJA**

A traditional year-end tax planning strategy for businesses that should generally apply even after TCJA includes reducing current year taxable income by deferring taxable income into later years and accelerating deductions into the current year. This strategy can save taxes where the income tax rate on the business's income in the following year will be the same or greater than the current-year tax rates. This strategy could be even more important if the deferral of business income or acceleration of business deductions will maximize the business owner's 20% Deduction by causing the owner's "Taxable Income" to drop to **\$157,500 or less (\$315,000 or less if filing a joint return)**. Traditionally, a popular way for businesses to maximize current-year deductions has been to take advantage of the **First-Year 168(k) Bonus Depreciation deduction** and the **179 Deduction**.

**Planning Alert!** TCJA has significantly enhanced and expanded the deductions for qualifying 168(k) Property and 179 Property.

### PLANNING WITH THE FIRST-YEAR 168(k) BONUS DEPRECIATION DEDUCTION AFTER TCJA

For the past several years, one of the most popular tax-favored business deductions has been the 168(k) Bonus Depreciation deduction. Before TCJA, the 168(k) Bonus Depreciation deduction was equal to 50% of the cost of qualifying “new” depreciable assets placed-in-service. TCJA generally increased the 168(k) Bonus Depreciation deduction to 100% for qualifying property acquired and placed-in-service **after September 27, 2017** and **before January 1, 2023**. TCJA also made the following changes to the 168(k) Bonus Depreciation deduction:

- **“Used” Property Now Qualifies For 168(k) Bonus Depreciation.** Previously, only “new” qualifying property was eligible for the 168(k) Bonus Depreciation deduction. For qualifying property acquired and placed-in-service **after September 27, 2017 and before 2027**, TCJA allows the 168(k) Bonus Depreciation to be taken on “new” or “used” property. Therefore, under TCJA, property that generally qualifies for the 168(k) Bonus Depreciation includes “new” or “used” business property that has a depreciable life for tax purposes of **20 years or less** (e.g., machinery and equipment, furniture and fixtures, sidewalks, roads, landscaping, computers, computer software, farm buildings, and qualified motor fuels facilities).

**Caution!** Even after TCJA, used property will not qualify if the property was previously used by the taxpayer (or by certain parties related to the taxpayer).

**Planning Alert!** The expansion of the 168(k) Bonus Depreciation to “used” property creates new planning opportunities including: **1)** A lessee that currently leases qualifying 168(k) property (e.g., leased equipment) from an unrelated lessor, could later purchase the property from the lessor and qualify for the 100% 168(k) Bonus Depreciation; **2)** Taxpayers that purchase the operating assets of another operating business will be able to deduct 100% of the purchase price that is properly allocated to 168(k) assets of the target business; **3)** Otherwise qualifying 168(k) property purchased new or used for personal use (e.g., a truck or passenger vehicle) which is later converted primarily to business use by the same owner can qualify for the 100% 168(k) Bonus Depreciation deduction in the year of the conversion, if the asset was acquired after September 27, 2017 (**Caution!** For a car, truck, or SUV, the business mileage for the year of conversion would generally have to be greater than the personal mileage); and **4)** The IRS says that a person who buys a partnership interest from an unrelated selling partner may be entitled to the 100% 168(k) Bonus Depreciation deduction with respect to a certain portion of the purchase price of the partnership interest, if the partnership owns existing qualifying 168(k) property.

**Planning Alert!** Please call our Firm if you need additional information regarding the rules for determining whether a portion of the cost incurred by a purchaser of a partnership interest might qualify for the 168(k) Bonus Depreciation.

- **Annual Depreciation Caps for Passenger Vehicles Increased.** Vehicles used primarily in business generally qualify for the 168(k) Bonus Depreciation. However, there is a dollar cap imposed on business cars, and also on trucks, vans, and SUVs that have a **loaded vehicle weight of 6,000 lbs or less**. More specifically, these vehicles **acquired and placed-in-service in 2017** and used 100% for business were generally allowed **maximum depreciation of \$3,160** (\$3,560 for trucks and vans). Also, these caps were increased by \$8,000 if the vehicle otherwise qualified for the 168(k) Bonus Depreciation.

For qualifying vehicles placed-in-service **after 2017** and used 100% for business, TCJA increases the annual depreciation caps (without regard to the \$8,000 increase) as follows: **1st year - \$10,000** (up from \$3,160 if placed-in-service in 2017); **2nd year - \$16,000** (up from \$5,100); **3rd year - \$9,600** (up from \$3,050); **fourth and subsequent years - \$5,760** (up from \$1,875). Moreover, if the vehicle (new or used) otherwise qualifies for the

168(k) Bonus Depreciation, the first-year depreciation cap is increased by \$8,000 (i.e., from \$10,000 to \$18,000).

**Planning Alert!** Thus, a vehicle otherwise qualifying for the 168(k) Bonus Depreciation deduction with loaded **Gross Vehicle Weight (GVW) of 6,000 lbs or less** used **exclusively for business** and **placed-in-service in 2018** would be entitled to a **depreciation deduction for 2018 of up to \$18,000**, whether purchased new or used. Even better, if the same new or used business vehicle (which is used 100% for business) has a loaded GVW **over 6,000 lbs, 100% of its cost** (without a dollar cap) could be deducted in 2018 as a **168(k) Bonus Depreciation deduction**.

**Tax Tip.** The 168(k) Bonus Depreciation deduction does not require any proration based on the length of time that an asset is in service during the tax year. Therefore, your business would get the benefit of the **entire 100% 168(k) Bonus Depreciation** deduction, if applicable for 2018 purchases, even if the qualifying property **was placed-in-service as late as December 31, 2018!**

**Caution!** If you take the 168(k) Bonus Depreciation deduction on your business vehicle (whether or not it weighs more than 6,000 lbs), if your business-use percentage later **drops to 50% or below**, you will generally be required to bring into income a portion of the deductions taken in previous years.

#### **PLANNING WITH THE SECTION 179 DEDUCTION**

Another popular and frequently-used business tax break is the up-front Section 179 Deduction (“179 Deduction”). For 179 Property placed-in-service **in tax years beginning after 2017**, TCJA made several taxpayer-friendly enhancements to the 179 Deduction which include: **1)** Increasing the 179 Deduction limitation to \$1,000,000 (up from \$510,000 for 2017), **2)** Increasing the phase-out threshold to \$2,500,000 (up from \$2,030,000 for 2017), and **3)** Expanding the types of business property that qualify for the 179 Deduction.

**Planning Alert!** To maximize your 179 Deductions for 2018, it is important for your business to determine which depreciable property acquired during the year qualifies as 179 Property. The following is a list of the expanded types of business property that qualify for the 179 Deduction **after TCJA**:

- **TCJA Expands the General Definition Of 179 Property.** Generally, “depreciable” property qualifies for the **179 Deduction** if: **1)** It is purchased **new or used**, **2)** It is “tangible personal” property, and **3)** It is used primarily for business purposes (e.g., machinery and equipment, furniture and fixtures, business computers, etc.). Off-the-shelf business software also qualifies.

**Planning Alert!** Before TCJA, the 179 Deduction was not allowed for property used in **connection with lodging** (other than hotels, motels, etc.). **Effective for property placed-in-service in tax years beginning after 2017**, TCJA removes this restriction, so the 179 Deduction **is now allowed** for otherwise qualifying property used in connection with lodging (e.g., the cost of furnishing a home that the owner is renting to others would now qualify).

- **New Definition Of “Qualified Real Property.”** Before TCJA, property that qualified for the 179 Deduction also included “Qualified Real Property” (i.e., certain leasehold improvements to existing commercial buildings; certain costs of acquiring and/or improving restaurant buildings; and, certain costs of improving the interior of existing buildings used for retail sales). **Effective for property placed-in-service in tax years beginning after 2017**, TCJA changed the definition of “Qualified Real Property” (which qualifies for the 179 Deduction) to mean any of the following “improvements” to an existing commercial (i.e., nonresidential) building that are placed-in-service after the commercial building was first placed-in-service: **1) “Qualified Improvement Property”** (certain improvements to the interior of the commercial building), **2) Roofs**, **3) Heating, Ventilation, and Air-Conditioning Property**, **4) Fire Protection and Alarm Systems**, and **5) Security Systems**.

**Tax Tip!** Determining whether a major repair to a building's roof should be capitalized or deducted immediately as a repair under the voluminous capitalization regulations, is not always an easy task. Since new roofs with respect to an existing commercial building may now qualify for the Section 179 Deduction after 2017, in many situations the "capitalization vs. repair" issue relating to the replacement of roofs should largely be eliminated where the 179 limitations for the year are not exceeded.

**Make Sure Newly-Acquired Property Is "Placed-In-Service" By Year End.** In order to take the 168(k) Bonus Depreciation deduction and/or the 179 Deduction in 2018 (assuming a calendar-year taxpayer), any newly-acquired asset must actually be "**Placed-In-Service**" no later than **December 31, 2018**. Generally, if you are purchasing "personal property" (equipment, computer, vehicles, etc.), "placed-in-service" means the property is **ready and available** for use. To be safe, qualifying property should be **set up and tested** on or before the **last day of 2018**. If you are dealing with building improvements (e.g., "Qualified Improvement Property" for purposes of the 179 Deduction), a **Certificate of Occupancy** will generally constitute placing the building improvements in service.

#### **OTHER SELECTED TAX CHANGES UNDER TCJA IMPACTING BUSINESS**

**Be Careful with Employee Business Expenses After TCJA!** Before TCJA, certain "miscellaneous itemized deductions" were allowed only to the extent they exceeded in the aggregate 2% of the taxpayer's adjusted gross income (AGI). **Starting in 2018**, TCJA not only repeals this 2% reduction rule, but also **suspends through 2025** any deduction for "Miscellaneous Itemized Deductions" that were subject to the 2% of AGI reduction. Two important examples of the expenses that are suspended include: **Un-reimbursed employee business expenses**; and, Expenses attributable to the **management of investments**.

**Planning Alert!** Although "**un-reimbursed**" employee business expenses are **not deductible after TCJA**, employee business expenses that are **reimbursed** under the employer's qualified Accountable Reimbursement Arrangement are not taxable to the employee. **Please call our Firm** if you need assistance in establishing or maintaining an Accountable Reimbursement Arrangement.

**TCJA Provides New Simplified Accounting Methods for Certain Small Businesses.** Generally effective for tax years beginning after 2017, TCJA provides the following accounting method relief for businesses with **Average Gross Receipts (AGRs)** for the **Preceding Three Tax Years of \$25 Million or Less**: **1)** Generally allows businesses to use the cash method of accounting even if the business has inventories, **2)** Allows simplified methods for accounting for inventories, **3)** Exempts businesses from applying UNICAP, and Liberalizes the availability of the completed-contract method.

**Planning Alert!** The IRS has released detailed procedures to follow for taxpayers who qualify and wish to change their accounting methods in light of these new relief provisions. Please call our Firm if you think you may qualify, and we will provide you with additional details.

**TCJA Imposes New Limits on Business Interest.** Effective for tax years beginning after 2017, TCJA provides that businesses may not deduct interest expense for a taxable year in excess of: **1)** Interest income, plus **2)** 30% of the business's adjusted taxable income, plus **3)** Floor plan financing interest. Any excess is carried over to subsequent years for an unlimited number of years.

**Planning Alert!** Businesses with **Average Gross Receipts** for the preceding three tax years of **\$25 million or less** are generally "**exempt**" from this new limitation on the interest expense deduction. In addition, certain **Real Property Trades or Businesses** and **Farming Businesses** with average receipts exceeding \$25 million may "elect out" of the limitation on the business interest deduction. However, this election will generally require the business to use



slower depreciation rates on certain depreciable assets and may restrict its ability to claim the 100% 168(k) Bonus Depreciation deduction.

**Caution!** When applicable, these interest limitation rules can be extremely complex particularly where pass-through entities (partnerships and S corporations) are involved. If you think your business exceeds the \$25 million Average Gross Receipts safe harbor and you want more detailed information on these rules, please contact our Firm.

**TCJA Imposes New Restrictions on The NOL Deduction.** TCJA generally makes the following changes to the Net Operating Loss (NOL) deduction: **1) For NOLs arising in tax years “ending” after 2017, repeals** the prior law 20-year limitation on the number of years to which an NOL could be carried forward (i.e., the carryover period is not limited), and also **repeals** the ability to carry back the NOL to previous years (except TCJA allows NOLs attributable to certain farming businesses and certain property and casualty insurance companies to be carried back to the 2 prior tax years); and **2) For NOLs arising in tax years “beginning” after 2017** and carried to future years, the NOL carryforward will not be allowed to offset more than 80% of taxable income (as determined before the NOL deduction).

#### **SELECTED TRADITIONAL YEAR-END PLANNING CONSIDERATIONS FOR BUSINESSES**

**Salaries for S Corporation Shareholder/Employees.** For 2018, an employer generally must pay FICA taxes of 7.65% on an employee’s wages up to \$128,400 and FICA taxes of 1.45% on wages in excess of \$128,400. In addition, an employer must withhold FICA taxes from an employee’s wages of 7.65% on wages up to \$128,400 and 1.45% of wages in excess of \$128,400. Generally, the employer must also withhold an additional Medicare tax of .9% for wages paid to an employee in excess of \$200,000. If you are a shareholder/employee of an S corporation, this FICA tax is generally applied only to your W-2 income from your S corporation. Other income that passes through to you or is distributed with respect to your stock is generally not subject to FICA taxes or to self-employment taxes.

- **Compensation Must Be “Reasonable.”** If the IRS determines that you have taken unreasonably “low” compensation from your S corporation, the Service will generally argue that other amounts you have received from your S corporation (e.g., distributions) are disguised “compensation” and should be subject to FICA taxes.

**Caution!** Determining “reasonable” compensation for an S corporation shareholder is a case-by-case determination, and there are no rules of thumb for determining whether the compensation is “reasonable.” However, recent Court decisions make it clear that the compensation of S corporation shareholders should be supported by independent data (e.g., comparable industry compensation studies), and should be properly documented and approved by the corporation.

**S Corporation Shareholders Should Check Stock and Debt Basis Before Year-End.** If you own S corporation stock and you think your S corporation will have a tax loss this year, you should contact us as soon as possible. These losses will not be deductible on your personal return unless and until you have adequate “basis” in your S corporation. Any pass-through loss that exceeds your “basis” in the S corporation will carry over to succeeding years. You have basis to the extent of the amounts paid for your stock (adjusted for net pass-through income, losses, and distributions), **plus** any amounts you have personally loaned to your S corporation.

**Planning Alert!** If an S corporation anticipates financing losses through borrowing from an outside lender, the best way to ensure the shareholder gets **debt basis** is to: **1)** Have the shareholder personally borrow the funds from the outside lender, and **2)** Then have the shareholder formally (with proper and timely documentation) loan the borrowed funds to the S corporation. It also may be possible to restructure (with timely and proper documentation) an existing outside loan directly to an S corporation in a way that will give the shareholder debt basis, however, the loan must be restructured before the S corporation’s year ends.



**Caution!** A shareholder cannot get debt basis by merely guaranteeing a third-party loan to the S corporation. **Please do not attempt to restructure your loans without contacting us first.**

**Establishing A New Retirement Plan For 2018.** Calendar-year taxpayers wishing to establish a qualified retirement plan for 2018 (e.g. profit-sharing, 401(k), or defined benefit plan) generally must adopt the plan **no later than December 31, 2018**. However, a SEP may be established by the due date of the tax return (including extensions), but a **SIMPLE plan** must have been established **no later than October 1, 2018**.

**Year-End Accruals to Employees.** Generally, if an accrual-basis business accrues year-end compensation to its rank-in-file employees (non-shareholder employees), the accrual must be paid no later than the 15th day of the third month after year-end to be deductible for the year of the accrual. Otherwise, the accrual is not deductible until paid.

**Accruals To “Related Parties.”** Year-end accruals to certain cash-basis recipients must satisfy the following rules in order for an accrual-basis business to deduct the accruals. **These rules apply to fiscal year as well as calendar year businesses:**

- **Regular “C” Corporations.** If a C corporation accrues an expense (e.g., compensation, interest, etc.) to a cash basis stockholder owning **more than 50%** (directly or indirectly) of the company’s stock, the accrual is not deductible by the corporation until the **“day”** it is includable in the stockholder’s income.
- **S Corporations and Personal Service Corporations.** If your S corporation or personal service C corporation accrues an expense to any shareholder (regardless of the amount of stock owned), the accrual is not deductible until the **day** it is includable in the shareholder’s income.
- **Partnerships, LLCs, LLPs.** If your business is taxed as a partnership, its accrual of an expense to **any owner** will not be deductible until the **day** it is includable in the owner’s income.
- **Other Related Entities.** Generally, an expense accrued by one related partnership or corporation to another **cash-basis** related partnership or corporation is not deductible until the **day** it is includable in the cash-basis entity’s income.

### FINAL COMMENTS

Please contact us if you are interested in a tax topic that we did not discuss. Tax law is constantly changing due to new legislation, cases, regulations, and IRS rulings. Our Firm closely monitors these changes. In addition, please call us before implementing any planning ideas discussed in this letter, or if you need additional information.

**Note!** The information contained in this material should not be relied upon without an independent, professional analysis of how any of the items discussed may apply to a specific situation.

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