Tax Reform and Small Business: Selected Issues for Freelancers

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Deduction for Qualified Business Income (QBI)

QBI means, for any taxable year, the net amount of qualified items of income, gain, deduction, and loss with respect to any domestic qualified trade or business of the taxpayer.

All taxpayers, except C corporations, with QBI from a qualified trade or business may take this deduction.

Taxpayers may claim the deduction in addition to the standard or itemized deduction.
Qualified trade or business is any U.S. trade or business, with two exceptions:

- specified service trade or business, and
- the trade or business of being an employee
A specified service trade or business is any trade or business described in section 1202(e)(3)(A) (with certain modifications)

- That is, any trade or business involving the performance of services in the fields of **health**, law, accounting, **actuarial science**, performing arts, **consulting**, athletics, financial services, or any trade or business where the principal asset of such trade or business is the reputation or skill of one or more of its employees or owners.
The specified service exclusion does not apply to taxpayers whose taxable income is less than $157,500 ($315,000 married filing jointly (MFJ)).

The deduction is reduced for taxpayers in a specified service trade or business whose taxable income is between $157,500 and $207,500 ($315,000 and $415,000 MFJ).

Income from a specified service trade or business is not income from a qualified trade or business for taxpayers with taxable income above $207,500 ($415,000 MFJ).
If taxable income is below $157,500 ($315,000 married filing jointly) regardless of the type of qualified trade or business, deduction is the lesser of:

- 20% of qualified trade or business income, plus 20% of qualified Real Estate Investment Trust (REIT) dividends and qualified publicly traded partnership (PTP) income, or
- 20% of the excess of taxable income over net capital gain.
For taxpayers with taxable income of $157,500 or more ($315,000 married filing jointly (MFJ)), the amount determined for QBI is limited to the greater of:

- 50% of wages from the qualified trade or business, or
- 25% of wages plus 2.5% of the unadjusted basis of qualified property from the qualified trade or business

These limitations are phased in for taxpayers with taxable income between $157,500 and $207,500 ($315,000 and $415,000 MFJ).
For *section 179 property* placed in service in taxable years beginning after Dec. 31, 2017;

- Section 179 deduction maximum increased from $500,000 to $1 million
- Phase-out threshold increased from $2 million to $2.5 million
- Definition of section 179 property expanded to include certain improvements made to nonresidential real property after the date the property was first placed in service
New Rules for Depreciation: 100 percent, first-year ‘bonus’ depreciation

For *qualified property* acquired and placed in service after Sept. 27, 2017:

- Increase in bonus depreciation from 50 percent to 100 percent, if placed in service before Jan. 1, 2023
- 100 percent is phased down by 20 percent per calendar year for property placed in service after 2022
- Definition of qualified property expanded to include qualified film, television or live theatrical productions
Tax Cuts and Jobs Act (TCJA) amended the deduction for business meals and entertainment under IRC § 274 for amounts incurred or paid after December 31, 2017:

- Business entertainment, amusement and recreation expenses are generally no longer deductible.
Taxpayers may continue to deduct 50 percent of the cost of business meals if they meet these three requirements:

- The taxpayer (or employee of taxpayer) is present at the furnishing of meals,
- Meals are provided to a current or potential client, customer, or business contact and
- The food and beverages are not considered lavish, or extravagant.
Food and beverages provided at entertainment events will not be considered entertainment if purchased separately from the event, or stated separately from the cost of the event on one or more bills, invoices or receipts.

Guidance – Notice 2018–76
Taxes are “pay-as-you-go”

- Steady increase in penalties over the last several years, almost 40%
- You should check into your options to avoid the penalties and a large tax bill when you file your tax return
- Pay As You Go, So You Won’t Owe page can help
- Helps avoid large bill, potential interest and penalties
Ways to pay your taxes through the year:

- Tax withholding from your pay, your pension or certain government payments, such as Social Security
- *Estimated tax* quarterly payments during the year
- A combination of both

Visit Paying your taxes at [www.irs.gov/payments](http://www.irs.gov/payments)
Use estimated tax payments:
- for income not subject to withholding or
- if you do not have enough withholding from salary, pension or other income

Pay estimated taxes based on your expected earning for income and self-employment tax:
- Use prior year return as a guide
- Form 1040-ES, worksheet
Estimated tax payments are due as follows:
- January 1 to March 31 payment is due April 15
- April 1 to May 31 payment is due June 15
- June 1 to August 31 payment is due September 15
- September 1 to December 31 payment is due January 15 of the next year

Visit IRS.gov/payments to view payment options
In general, you will not have to pay a penalty if you owe less than $1,000 in tax or your total tax payments and credits for the year are:

• At least 90% of the tax for the current year
• 100% of the tax shown on your return for the prior year (can increase to 110%, based on AGI)

Use Form 2210, Underpayment of Estimated Tax by Individuals, Estates and Trusts, to see if you owe a penalty.
When to Change Withholding

- Check your withholding often and adjust it when your situation changes any time of the year.

- If you experience a life change that reduces your withholding allowances, you must submit a new Form W–4 to your employer within 10 days of the change.

- After the Tax Cuts and Jobs Act made major changes to the tax law, the IRS urges everyone to check their withholding.
Changes in life may make it necessary to adjust your withholding.

Check out these resources for withholding assistance:

- IRS Withholding Calculator
- Publication 505, Tax Withholding and Estimated Tax
- Form W–4 Employees Withholding Allowance Certificate
We’re halfway through 2019
If you haven’t checked your tax withholding yet, the time for a Paycheck Checkup is now.

www.irs.gov/withholding
Learn more on IRS.gov:

- Pay As You Go So You Won’t Owe
- Tax Reform
- Tax Withholding
- Estimated Taxes
- Sharing Economy Tax Center
- Self-Employment Tax, Social Security and Medicare Taxes
- Self-Employed Individuals Tax Center
- Filing and Paying Your Business Taxes
Forms and Publications:

- Publication 505, Tax Withholding and Estimated Tax
- Form W-4, Employee’s Withholding Allowance Certificate
- Form 1040-ES, Estimated Tax for Individuals
- Form 2210, Underpayment of Estimated Tax by Individuals, Estates and Trusts
Resources

- IRS.gov/TaxReform
Do your Homework

- IRS has helpful publications
- IRS Small Business & Self-Employed Center
- Small Business Tools & Resources
  - E-News for Small Businesses
  - Virtual Small Business Tax Workshops
  - Online Learning and Education products
@IRSnews – IRS news and guidance for the public, the press and practitioners
@IRStaxpros – IRS news and guidance for tax professionals
@IRSSmallBiz – IRS news for small businesses and the self-employed
@IRSenEspanol – IRS en Español
@IRStaxsecurity – Tax security awareness
YouTube – Watch short, informative videos in English, American Sign Language and Spanish
  - IRS Videos
  - IRS Videos ASL
  - IRS Videos Multilingual

Instagram – @irsnews shares taxpayer-friendly information on a variety of topics
Contact Information

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