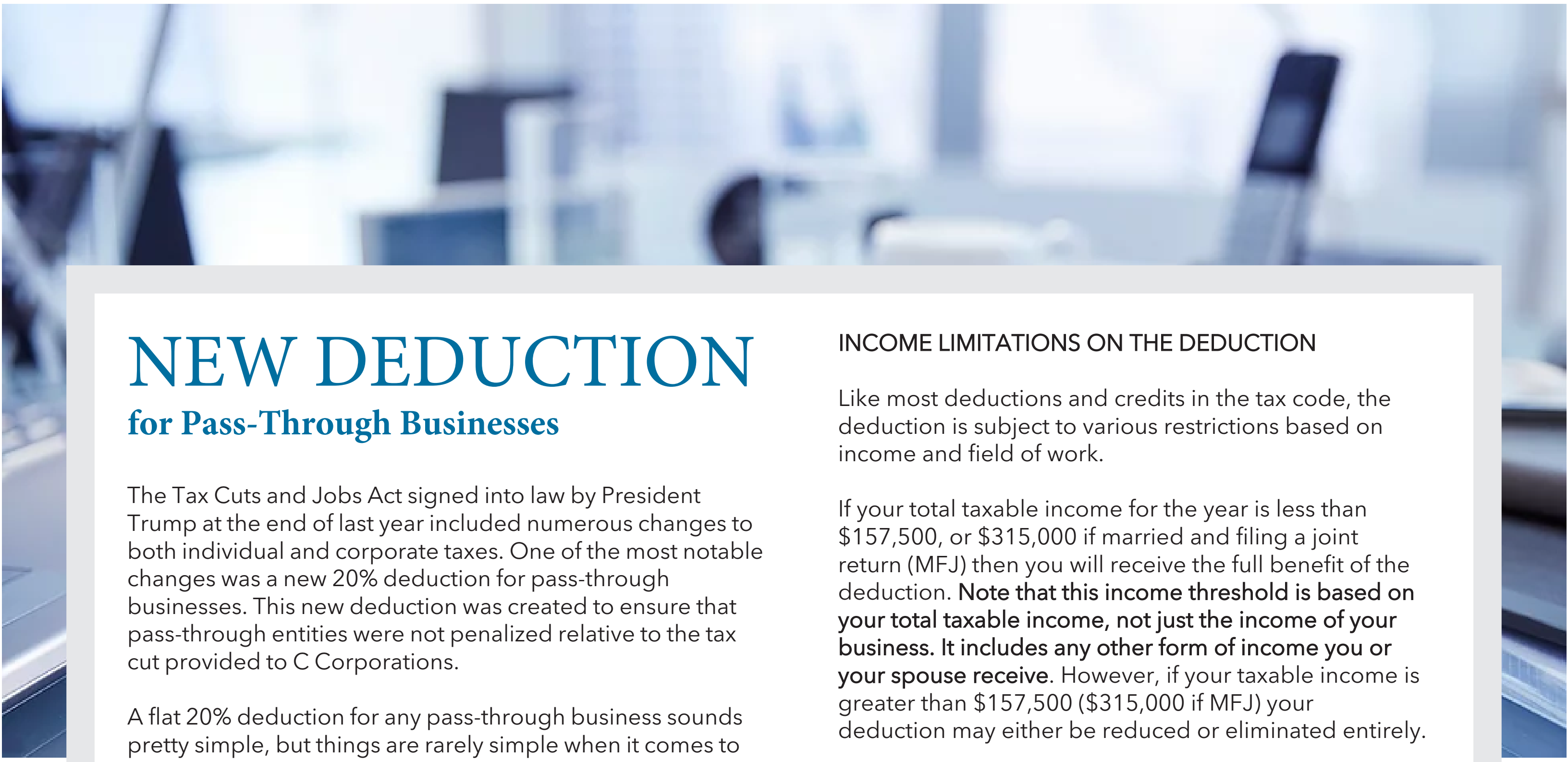
[MONOTELO QUARTERLY]

MAY 2018

MONOTELO ADVISORS

MONOTELO.COM INFO@MONOTELO 800.961.0298



NEW DEDUCTION

for Pass-Through Businesses

The Tax Cuts and Jobs Act signed into law by President Trump at the end of last year included numerous changes to both individual and corporate taxes. One of the most notable changes was a new 20% deduction for pass-through businesses. This new deduction was created to ensure that pass-through entities were not penalized relative to the tax cut provided to C Corporations.

A flat 20% deduction for any pass-through business sounds pretty simple, but things are rarely simple when it comes to the tax code. And that is why we are here, to handle the more technical aspects of this new deduction. For now, here is a brief overview of the deduction requirements.

WHO QUALIFIES FOR THIS DEDUCTION?

The simple answer to this question is that any "trade or business" that is not a traditional C Corporation qualifies for this 20% deduction. That includes self-employment income from a sole proprietorship or a single-member LLC. It also includes income from a partnership or a S Corporation, as well as income from a rental property. What it does not include is any wages you receive as an employee, even if those wages are paid by a partnership or S-Corporation that you own.

HOW IS THE DEDUCTION CALCULATED?

This is where things start to get a bit more complicated. The deduction is calculated as 20% of your net business income. This means you must first deduct all of your normal business expenses, including any salary you pay yourself, before determining the deduction. This also means that your business must show a profit in order to receive the deduction.

INCOME LIMITATIONS ON THE DEDUCTION

Like most deductions and credits in the tax code, the deduction is subject to various restrictions based on income and field of work.

If your total taxable income for the year is less than $157,500, or $315,000 if married and filing a joint return (MFJ) then you will receive the full benefit of the deduction. **Note that this income threshold is based on your total taxable income, not just the income of your business. It includes any other form of income you or your spouse receive**. However, if your taxable income is greater than $157,500 ($315,000 if MFJ) your deduction may either be reduced or eliminated entirely.

If your business qualifies as a "specified service trade or business" then your deduction will begin to phase out above these thresholds and will be completely eliminated at taxable income of $207,500 ($415,000 if MFJ).

If your business does not fit the definition of a "specified service trade or business" then you will continue to receive the deduction although it may be limited based on the amount your business pays in wages, or the value of the business assets.

SUMMARY

With the introduction of this new 20% deduction for pass-through businesses, business owners are likely to see a reduction in their tax bill for 2018. The extent of the benefit you receive will depend on your total taxable income as well as the type of business you operate. If you expect your taxable income to be above $157,500 (or $315,000 if MFJ) then call us to help you determine how the tax law changes will impact you.