

# Small Business Tax Q&A: May '18

## New tax break for going solo

**Q. Does the new deduction for pass-through entities also apply to self-employed individuals? J.M.J., Mansfield, Ohio**

**A.** Yes. This deduction is available to sole proprietors as well as individuals who own interests in pass-through entities like S corporations, partnerships and limited liability companies (LLCs). But the new deduction, which takes effect in 2018, is causing a great deal of confusion. Generally, you're entitled to a maximum deduction of 20% of qualified business income (QBI), but it's reduced if your income exceeds certain thresholds. It also depends on whether you're in a personal service business (e.g., medicine or law). These taxpayers may get no deduction above the stated income levels.

**Tip:** The IRS is expected to issue more guidance in the near future.

## A house sale divided still stands

**Q. Can you still claim the home sale exclusion if you're paid in a few installments? S.H., Newport, R.I.**

**A.** Yes. To qualify for the home sale exclusion, however, you still must have owned and used the home as your principal residence for at least two of the previous five tax years. The maximum exclusion is \$250,000 for single filers and \$500,000 for joint filers. Any excess is taxable at capital gains rates. With an installment sale, the applicable portion of the excess gain is taxed in the years when payments are received.

**Tip:** Payments qualify for installment sale treatment only if received over two tax years or more. If it suits your needs, you can "elect out" of installment sale treatment.

## Do the math on Social Security

**Q. I'm turning 66 in October and still working full-time. Should I claim Social Security benefits now? K.C., Santa Rosa, Calif.**

**A.** Probably not until you reach full retirement age (FRA) of 66. Under the "earnings test," you will have to forfeit \$1 of benefits for every \$3 earned if your annual earnings before FRA exceed a specified limit. This limit, which is indexed annually, is \$45,360 in 2018. But once you pass your 66th birthday, you're out of danger. Caveat: A portion of the Social Security benefits received is still subject to tax above relatively low income thresholds. Factor this into your financial planning.

**Tip:** Don't make any assumptions. Crunch all the numbers for your situation.

## Charity may begin at work

**Q. I have an S corporation. Can I benefit from a pass-through of charitable donations? M.A.,**

## Pittsburgh

**A.** Yes. With an S corp, income and deductions are passed through to shareholders. Thus, assuming all the other requirements for charitable deductions are met, you can benefit from donations made by your S corporation to a qualified charity. However the TCJA changes things for many taxpayers who have in the past claimed itemized deductions, including those for charitable donations, but will now claim the bigger standard deductions established by the new law. This consideration affects charitable deductions passed through to you from your S corp.

**Tip:** The standard deduction for 2018 is \$12,000 for single filers and \$24,000 for joint filers.