AUGUST 8, 2018

Small business tax Q&A: August ’18

More tax on Social Security benefits

Q. I know that the federal government taxes Social Security benefits. Do the individual states? J.K., Trumbull, Conn.

A. Social Security benefits aren’t subject to tax in most states, but 13 states do impose tax on these benefits, including your home state of Connecticut. The other 12 are Colorado, Kansas, Minnesota, Missouri, Montana, Nebraska, New Mexico, North Dakota, Rhode Island, Utah, Vermont and West Virginia. In addition, other special rules may apply. For example, in Connecticut Social Security benefits are exempted from state income tax for a joint filer with under $60,000 of income.

Tip: The federal tax on benefits is triggered at relatively low levels of “provisional income.”

No change for business casualty losses

Q. Does the new tax law eliminate casualty loss deductions for business property? L.B., New Orleans

A. No. The Tax Cuts and Jobs Act (TCJA) provision suspending casualty and theft losses for 2018 through 2025 only applies to losses from personal property that were previously claimed by individuals on Schedule A. Under those rules, you could deduct the excess unreimbursed loss above 10% of your adjusted gross income (AGI) after subtracting $100 per casualty-or-theft event. For 2018-2025, this deduction is no longer allowed except for federal disaster-area losses. However, losses to business property continue to be deductible, as before the TCJA, without regard to any 10%-of-AGI limit or $100 reduction.

Tip: Federal disaster-area casualty losses can be deducted in the year prior to the year the casualty actually occurs.

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A home sale divided still stands

Q. I'm selling my home on an installment basis. Does this still qualify for the home sale exclusion? A.H., Clifton, Ariz.

A. Yes, as long as you meet the usual requirements for the home sale exclusion. To qualify, the home must have been owned and used as your principal residence for at two out of the five previous years. The maximum exclusion for home sale gain is $250,000 for single filers and $500,000 for joint filers. Any excess is taxable as capital gain, but tax on that part is due only as payments are actually received. Therefore, you may be able to defer tax on a sizeable gain. By spreading out a large gain over several years, you might be able to reduce your overall tax liability.

Tip: The maximum tax rate on long-term gain is 15% (20% for high-income taxpayers).

Not too old for an IRA

Q. I'm age 68, but still working part-time for my business. Can I contribute to a Roth IRA? J.C.P., Wilkes-Barre, Pa.

A. Yes. In fact, you can still contribute to a traditional IRA if you choose, since contributions are allowed until the year in which you turn age 70½. There's no age limit on contributions to a Roth IRA. With either type of IRA, you can contribute up to the lesser of 6,500 ($5,500 if under age 50) or your earned income. So it's likely you won't be eligible for either traditional or Roth IRA contributions if you stop working.

Tip: If it suits your needs, you can divide contributions between a traditional or Roth IRA, up to the overall limit. For instance, at age 68 you might contribute $3,250 to a traditional IRA and $3,250 to a Roth IRA.

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