

Small Business Tax Q&A: September '18

Tax guidance on vet costs

Q. Can you deduct veterinary costs of a guide dog as a medical expense? E.B., New York City

A. Yes, subject to the other medical expense deduction rules if you itemize deductions on your return instead of claiming the standard deduction. Because guide dogs assist disabled people, their vet care qualifies for the deduction, as do expenses for feeding, training and grooming the dog. The IRS has even allowed a medical expense deduction for the cost of an animal the taxpayer acquired for emotional support. (*IRS Information Letter 2010-0129, 6/25/10*)

Tip: The medical deduction threshold, lowered to 7.5% of adjusted gross income (AGI) for 2017 and 2018, reverts to 10% of AGI in 2019.

No tax breaks for hobbies

Q. Are expenses from a hobby still tax-deductible under the new law? C.M., Paramus, NJ

A. No. The Tax Cuts and Jobs (TCJA) changes the rules for 2018-2025. Previously, you could deduct hobby expenses up to the amount of your hobby income, but you could not claim an overall tax loss from a hobby. However, under prior law hobby expenses were only deductible as miscellaneous expenses, subject to a deduction threshold of 2% of adjusted gross income (AGI). The TCJA suspends the deduction for hobby expenses, as well as all other miscellaneous expenses, for 2018 through 2025.

Tip: You can still deduct expenses—even a loss—if you can show that your money-losing activity was a for-profit business that has not yet become profitable. This depends on the facts and circumstances.

Seeking tax shelter in foreclosure

Q. We're buying a home as part of a foreclosure. Can we deduct all the back taxes for this home?

A.M.A, Charlotte, NC

A. No. Typically, if you buy a home in foreclosure, you must pay delinquent back taxes, plus other charges such as interest. In this case, your deduction for property taxes is limited to the portion of taxes owed from the time you assume legal ownership of the property. Any amount attributable to taxes owed before that date is treated as part of the purchase price. Also, the Tax Cuts and Jobs Act limits your annual deduction for all state and local taxes (SALT), including property taxes, to \$10,000 for 2018-2025 (\$5,000 if you use married filing separate status).

Tip: If you don't itemize and claim the standard deduction, you get no SALT deduction.