31st NPC Annual Conference

February 12-14, 2020
Houston, TX

Tommy Trowel III – Taxes & Tax Advantages

Bruce S Hughes CPA
Founding Chairman of the National Plasterers Council
What Business Are You In?

Of course we all know that you are a pool plasterer or a pool resurfacer, if you will. You’re probably pretty good at it too or else you wouldn’t be in business in the first place.

But that’s not the most important business you are in. The most important business is being in the business of business. That’s right – you really are in two businesses, whether you want to be or not.

You are in the pool business

and

You are in the business of being in business
The Bad News...

Now here’s the bad news — the second business is MORE important that the first. You can be the world’s greatest plasterer and still fail at business.

Let’s look at a report on the failure record of building contractors issued by Dun & Bradstreet. As you can see, you have a 10% chance of failing because you’re not good enough. But, you have an 89% chance of failing because you’re not minding the business of being in business.

TAX REFORM

TCJTCJA is effective Jan 1, 2018 - Dec 31, 2025 and includes

- 50+ major changes that affect individual taxpayers

It made the tax return so simple it started on a postcard . . .
## SIMPLE, FAIR “POSTCARD” TAX FORM

1. Wage and compensation income
2. Subtract contributions to specified savings plans
3. Subtract standard deduction OR
4. Subtract mortgage interest benefit
5. Subtract charitable contribution benefit
6. Taxable income
7. Preliminary tax (from tax table)
8. Add tax on investment income
9. Subtract child credit
10. Subtract earned income credit
11. Subtract higher education credit
12. Total tax
13. Subtract taxes withheld
Taxpayer Advocate Drew a Map of Our Tax System

THERE'S GOOD & BAD
WINNERS & LOSERS
FIRST THE LOSERS

FIRST THE LOSERS:

- ENTERTAINMENT DEDUCTION -- GONE
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- PERSONAL EXEMPTIONS -- GONE
- TAX DEDUCTION – LIMITED TO $10,000
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- TAX DEDUCTION – LIMITED TO $10,000
- MORTGAGE INTEREST-LIMITED TO $750,000

- HELOC INTEREST – NOT DEDUCTIBLE
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- ALIMONY DEDUCTION -- GONE
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- MOVING EXPENSES -- GONE

NOW THE WINNERS--INDIVIDUALS
WINNERS--INDIVIDUALS:

- LOWER TAX RATES & WIDER BRACKETS

### 2019 Tax Rates

<table>
<thead>
<tr>
<th></th>
<th>Single</th>
<th>MFJ</th>
<th>HOH</th>
</tr>
</thead>
<tbody>
<tr>
<td>10%</td>
<td>&lt; $9,700</td>
<td>&lt; $19,400</td>
<td>&lt; $13,850</td>
</tr>
<tr>
<td>12%</td>
<td>$9,700-$39,475</td>
<td>$19,400-$78,950</td>
<td>$13,850-$52,850</td>
</tr>
<tr>
<td>22%</td>
<td>$39,476-$84,200</td>
<td>$78,951-$168,400</td>
<td>$52,851-$84,200</td>
</tr>
<tr>
<td>24%</td>
<td>$84,201-$160,725</td>
<td>$168,401-$321,450</td>
<td>$84,201-$160,700</td>
</tr>
<tr>
<td>32%</td>
<td>$160,726-$204,100</td>
<td>$321,451-$408,200</td>
<td>$160,701-$204,100</td>
</tr>
<tr>
<td>35%</td>
<td>$204,101-$510,300</td>
<td>$408,201-$612,350</td>
<td>$204,101-$510,300</td>
</tr>
<tr>
<td>37%</td>
<td>Over $510,300</td>
<td>Over $612,350</td>
<td>Over $501,300</td>
</tr>
</tbody>
</table>
WINNERS--INDIVIDUALS:

- LOWER TAX RATES & WIDER BRACKETS
- CHILD CREDIT INCREASE TO $2,000

- NEW $500 OTHER DEPENDENT CREDIT
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- OBAMA CARE PENALTY -- GONE
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- ESTATE TAX LIMIT RAISED TO $11,180,000

NOW THE WINNERS--BUSINESS
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- C-CORP RATE DROPPED FROM 35% TO 21%
- SEC 179 DEPN INCREASE TO $1,000,000
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THE WINNERS--BUSINESS:

- C-CORP RATE DROPPED FROM 35% TO 21%
- SEC 179 DEPN INCREASE TO $1,000,000
- BONUS DEPN – 100% FOR NEW OR USED
- 20% QUALIFIED BUSINESS INCOME DEDUCTION
Game of Taxes...
QBI is coming here

New QBI Forms 8895 & 4 Sch’s

1. Form 8895 – Simple QBI Computation
2. Form 8895-A – Complicated QBI Computation
3. Sch A – Specified Services Trade Or Businesses
4. Sch B – Aggregation of Businesses
5. Sch C – Loss Netting & Carryforward
6. Sch D – Agricultural/Horticultural Cooperatives
New QBI Tax Concepts

- Understand the formula
- Define qualified business income
- Understand 3 limitations
- Calculate the deduction

20% QBI Deduction

20% of “qualified business income” (QBI) deductible by “pass-throughs”
- Sole proprietorships (Sch. C & F)
- Rentals (Sch. E)
- S Corporations
- LLCs & Partnerships
- Trusts and estates
QBI Calculation Formula

The LESSER of:
The GREATER of:
The SUM of:

The QBI Formula

LESSER of:
20% of the combined QBI of the taxpayer, OR
an amount equal to 20% of the excess (if any) of the taxable income, over the net capital gain
The QBI “Active Business” Formula

GREATER of:
50% of the wages with respect to the qualified trade or business, OR the SUM of
25% of the W-2 wages, PLUS
2.5% of the unadjusted basis immediately after acquisition (UBIA) of all qualified property

20% Qualified Business Income Deduction Lowers Tax Due

<table>
<thead>
<tr>
<th>Business Income</th>
<th>$120,000</th>
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<tbody>
<tr>
<td>Business Expenses</td>
<td>-$20,000</td>
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<tr>
<td>QUALIFIED BUSINESS INCOME</td>
<td>$100,000</td>
</tr>
<tr>
<td>Allowable Nonbusiness Deduction</td>
<td>-$19,000</td>
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<tr>
<td>TENTATIVE TAXABLE INCOME</td>
<td>$81,000</td>
</tr>
<tr>
<td>Less: 20% QBI DEDUCTION</td>
<td></td>
</tr>
<tr>
<td>LESSER OF: (a)$100,000 X 20% =</td>
<td>$20,000</td>
</tr>
<tr>
<td>(b) $81,000 X 20% =</td>
<td>$16,200</td>
</tr>
<tr>
<td>TAXABLE INCOME</td>
<td>$64,800</td>
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QBI Deduction MAY NOT BE Available if Taxable Income ABOVE Threshold Limitation ($421,400 MFJ for 2019)

Back Door Rate Decrease
BUSINESS ENTITY – DOES IT MATTER?

Proprietorship, LLC, S-Corp, C-Corp

Which is best for Tax Savings and Why?
### Schedule C

<table>
<thead>
<tr>
<th>Schedule C’s QBI</th>
<th>$500,000</th>
</tr>
</thead>
<tbody>
<tr>
<td>W-2 Wages to Sole Proprietor</td>
<td>$0</td>
</tr>
<tr>
<td>Lesser of: (A) or (B)</td>
<td></td>
</tr>
<tr>
<td>(A) Tentative 20% QBI</td>
<td>$500,000</td>
</tr>
<tr>
<td></td>
<td>X 20%</td>
</tr>
<tr>
<td>OR</td>
<td></td>
</tr>
<tr>
<td>(B) 50% of W-2 Limitation</td>
<td>$0</td>
</tr>
<tr>
<td></td>
<td>X 50%</td>
</tr>
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<td>Lesser of (A) or (B)</td>
<td></td>
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<td>20% QBI Deduction</td>
<td>$0</td>
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</tbody>
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### LLC/Partnership

<table>
<thead>
<tr>
<th>LLC’s QBI</th>
<th>$500,000</th>
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<tbody>
<tr>
<td>W-2 Wages to Member</td>
<td>$0</td>
</tr>
<tr>
<td>Lesser of: (A) or (B)</td>
<td></td>
</tr>
<tr>
<td>(A) Tentative 20% QBI</td>
<td>$500,000</td>
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<td>Lesser of (A) or (B)</td>
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<tr>
<td>20% QBI Deduction</td>
<td>$0</td>
</tr>
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</table>
SOLE PROPRIETORSHIPS, PARTNERSHIPS & LLC’S RECEIVE NO QBI DEDUCTION ABOVE THE THRESHOLD LIMIT UNLESS THEY HAVE PAYROLL TO EMPLOYEES, OTHER THAN OWNERS

S-CORP NET BUSINESS INCOME QUALIFIES FOR THE QBI DEDUCTION BASED ON THE “REASONABLE WAGES” PAID TO THE OWNERS (AND OTHER EMPLOYEES)

QBI & PAYROLL TAX SAVINGS MAKE THE S-CORP THE ENTITY OF CHOICE
ENTITY OWNERSHIP

Partners – Good or Bad?
Spouse as Co-Owner?
Children?
Tax Advantages?

WHAT IS YOUR RETURN ON INVESTMENT (ROI) ON TAX SAVINGS?
Before Tax vs After Tax

Purchase an Item for $1,000

FIT = 22%
SIT = 5%
TOTAL = 27%

$1,370 - $370 = $1,000

YOU MUST EARN MINUS TAXES TO NET

22% Tax Bracket
Before Tax vs After Tax

FIT = 22%
SIT = 5%
TOTAL = 27%

1,000

27% TAX DEDUCTION -270

NET COST $ 730

AFTER TAX COST $1,370
BEFORE TAX COST $ 730
SAVINGS $ 640
ON JUST A $1,000 PURCHASE
HAVING YOUR OWN BUSINESS

“Your Life is Your Business”
“Your Business is your Life”

What Does That Mean?

So, Give me Some Tax Savings Ideas

- Vehicles
- Health Insurance
- Reimbursement Plans
- Real Estate Ownership
- Corp/LLC Meetings & Meals
- Pay Children
- Home Office
- Travel
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