Tax Tip

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Here's how tax reform changed accounting methods for small businesses

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The Tax Cuts and Jobs Acts – better known simply as tax reform – allows more small business taxpayers to use the cash method of accounting. Tax reform now defines a small business taxpayer as a taxpayer that has average annual gross receipts of $25 million or less for the three prior tax years and is not a tax shelter.

Here's how last year's legislation changed the rules for small business taxpayers. The law:

- Expands the number of small business taxpayers eligible to use the cash method of accounting by increasing the average annual gross receipts threshold from $5 million to $25 million, indexed for inflation.
- Allows small business taxpayers with average annual gross receipts of $25 million or less for the three prior tax years to use the cash method of accounting.
- Exempts small business taxpayers from certain accounting rules for inventories, cost capitalization and long-term contracts.
- Allows more small business taxpayers to use the cash method of accounting for tax years beginning after Dec. 31, 2017.

Revenue Procedure 2018-40 provides the procedures that a small business taxpayer may use to obtain automatic consent to change its methods of accounting to reflect these statutory changes.

More information:
Tax Cuts and Jobs Act: A comparison for businesses

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