TaxTips

Keeping You Informed ▪ Winter 2019

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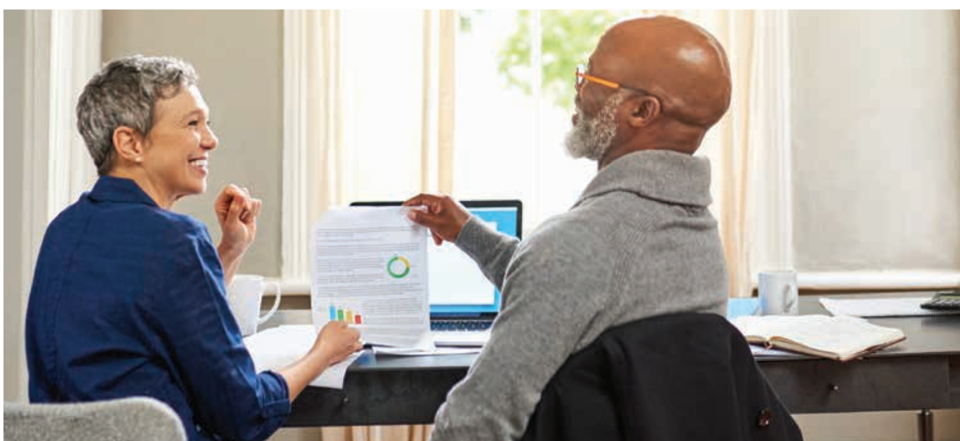
Changes due to the Tax Cuts and Jobs Act (TCJA)

A whole new world of taxation

On December 22, 2017, the President of the United States signed into law major tax reform in the Tax Cuts and Jobs Act (TCJA). The TCJA made widespread changes to the Internal Revenue Code which will affect your 2018 tax return. Here are some of the more common changes that could affect your tax return.



Personal exemption rate is reduced to zero. Prior to 2018, a personal exemption amount of over $4,000 per person could be used to reduce taxable income. This personal exemption amount has been reduced to zero for 2018 through 2025.

Standard deduction increased. The standard deduction for most returns has been almost doubled over the amount that was allowed last year. The deduction for Single and Married Filing Separately returns is $12,000, Head of Household returns is $18,000, and Married Filing Jointly and Qualifying Widow(er) returns is $24,000.

The additional amounts for being over 65 or blind will still be allowed. Because of this change, this year many taxpayers will find that claiming the standard deduction instead of itemizing deductions will give them a lower tax.

SSN Required for Child Tax Credit (CTC). An SSN is now required to claim CTC. No credit will be allowed for any qualifying child unless the taxpayer provides that child's SSN or a Work Authorization Permit from Homeland Security. Prior to this year, CTC could be claimed for a child who had an ITIN.

Increase in CTC. The Child Tax Credit has been increased from $1,000 to $2,000 for 2018. The modified adjusted gross income threshold where the credit is phased out is $400,000 for joint filers and $200,000 for all others (up from $230,000 and $115,000, respectively), so many more taxpayers will be able to claim this credit.

The maximum age for a child eligible for the credit remains 16 (at the end of the tax year).

New Credit for Other Dependents (ODC) is created. Beginning in 2018, a new $500 credit is available for dependents who do not qualify for the CTC. Most dependents listed on the tax return who do not qualify for CTC will now qualify for the smaller ODC, including parents who are claimed as dependents.

Medical deduction. For taxpayers of all ages, the threshold for medical expenses is 7.5% of AGI.

State and local taxes (SALT). There is a cap on the deduction for state and local taxes paid. The deduction for state and local income taxes, real estate taxes, and personal property taxes combined is limited to $10,000 per return, ($5,000 for Married Filing Separately returns).

Limitation on deduction for home mortgage interest. You may be able to deduct mortgage interest only on the first $750,000 ($375,000 if married filing separately) of indebtedness. Higher limitations apply if you are deducting mortgage interest from indebtedness incurred on or before December 15, 2017.

(continued)

No deduction for home equity loan interest. No matter when the indebtedness was incurred, you can no longer deduct the interest paid on a home equity loan unless loan proceeds were used to buy, build, or improve your home.

Limitation on the deduction for casualty and theft losses. You can no longer deduct a personal casualty or theft loss unless the loss occurred in a federally declared disaster area.

Qualified Business Income Deduction (QBID). A new deduction for qualified business income from a trade or business, including sole proprietorships, S corporations, or partnerships and potentially some rental income, is available on Form 1040. QBI doesn't include W-2 wages. The deduction is subject to many limitations, such as income level and type of business. If you have QBI, you can reduce your taxable income, whether you itemize deductions or claim the standard deduction. In its simplest form, if adjusted gross income less itemized or standard deduction is under $157,500 ($315,000 for joint filers) you can deduct 20% of your QBI from income before computing your tax.

Deductions for employee business expenses eliminated. One of the biggest changes under this new law was the elimination of the deduction for unreimbursed employee business expenses beginning with 2018 tax returns. This effectively means that employees will no longer be able to offset their taxable income by common business expenses they incur such as mileage, uniforms, union dues etc. (This change under the TCJA does not affect self- employed individuals.) Form 2106, Employee Business Expenses, is now to be used only for certain categories of employee such as:

- Qualified performing artists
- Fee-based state or local government officials
- Armed forces reservists
- Employees with impairment-related work expenses

Standard mileage rate. The 2018 standard mileage rate is 54.5 cents per mile for business miles.

Moving expenses. Beginning January 1, 2018, moving expenses cannot be deducted by most people. Active duty members of the U.S. Armed Forces who move pursuant to a military order and incident to a permanent change of station can still deduct moving expenses and exclude reimbursed moving expenses. Additionally, most taxpayers cannot exclude employer reimbursements for moving expenses from income.

Alternative Minimum Tax (AMT). Fewer taxpayers will be subject to AMT due to increased exemption amounts and phaseout thresholds.

Certain ITINs expired (not to be confused with SSNs). As of December 31, 2018, ITINs with middle digits 73, 74, 75, 76, 77, 81, or 82 in the fourth and fifth positions have expired. The ITIN must be renewed if it will be included on a 2018 federal tax return.

Depreciation changes. There are numerous changes to how depreciation can be claimed on assets purchased during 2018. Many assets can be entirely written off in 2018 rather than being depreciated over several years.

Healthcare Mandate Penalty Repealed for 2019. Beginning in 2019, individuals who fail to carry health insurance will no longer be required to pay an individual shared responsibility payment with their tax return.

We look forward to helping you get the most benefit from these tax law changes. Please be sure to ask how these changes may impact your tax return.

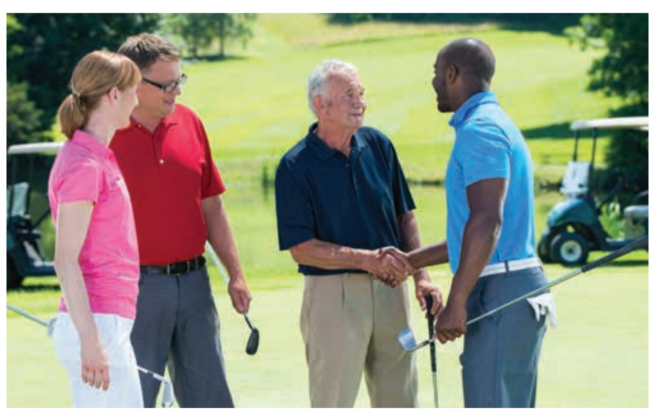
The Party's Over

Deduction for entertainment expenses no longer allowed

Starting in 2018, deductions for activities that are generally considered to be entertainment, amusement or recreation expenses, or with respect to a facility used in connection with such activities, are disallowed. Forget front row concert tickets or box seats at the MLB game on another company's dime.

Before the new law, if you took a potential client golfing to discuss a future relationship, this cost was 50% deductible as entertainment associated with the active conduct of a trade or business, but only if adequate records were kept. Now there is no such deduction. The government likes this provision because it eliminates the subjective determination of whether such expenses are sufficiently business-related.

However, if you reward an employee with an expense-paid vacation, you can still deduct this type of entertainment since it is treated as compensation to the employee. If you gave the same type of reward to a contractor, you would have to issue a 1099-Misc in order to gain a deduction.



Celebrations like holiday parties and annual picnics are still fully deductible because they are for the primary benefit of employees. Yet membership dues for any club organized for business, pleasure, recreation or other social purpose are not deductible and never have been allowed.

Give me a call to discuss how these types of expenses might affect your tax liability for the year.

To be or not to be

What type of business is best?

The idea of starting a business is scary enough; then comes the difficult decision of what type of business entity to establish. You'll need to consider your financial needs, risk and ability to grow. Choosing correctly at the start is critical because it can be difficult to change your legal structure after you have registered your business.

A sole proprietorship is quick and inexpensive to form. You have complete control over your business. You are entitled to all profits from the business. Nonetheless, you are also liable for all business debts and have an unlimited personal liability, which may be undesirable. This type of entity may also make it difficult to raise capital if needed.

A partnership has several options: (1) a general partnership with overall equal division of profits, liability and management or (2) a limited partnership with one partner controlling the operations and other partners with limited roles. Partners must file taxes twice, once for the partnership and once for the individual. Also, if disputes arise between partners, there could be some drama. Similarly, with this type of business, you could be held liable for actions made by your business partner.

A multi-member limited liability company (LLC) is a hybrid between a partnership and a corporation, and it can be taxed as either. This entity provides options for the actual business structure with the limited liability of a corporation and the operational flexibility and tax structure of a partnership.

If liability and outside funding are your main concerns, then a C corporation might be your best fit. A C corporation provides limited liability. Other pros of a C corporation are the ability to generate capital. Plus, the current tax rate is capped at 21%. Conversely, C corporations are subject to double taxation—once when the corporation makes a profit and again when it pays dividends to shareholders. In addition, a C corporation can require a large initial investment of time and money for start-up and administrative costs.

An S corporation is also a good option for limited liability; yet, an S corporation has stricter operational processes including shareholder compensation requirements. Also, foreign ownership of shares is prohibited. On a positive note, this type of corporation eliminates any double taxation since the income is passed through to the shareholders to report on their personal returns.

The best option for you will depend on your personal and business goals and how they align with what each type of entity has to offer.

Tax credit for children and qualifying dependents

How much are you eligible for?

Beginning in 2018, the child tax credit increases to $2,000 per qualifying dependent child age 16 or younger at the end of the calendar year. This is a huge benefit because a credit reduces your tax bill dollar-for-dollar! Also, up to $1,400 of the credit could create a refund if you have at least $2,500 of earned income. Once you earn more than $200,000 ($400,000 if married filing jointly), the credit decreases.

A qualifying child must be a U.S. citizen, U.S. national or resident alien. The child must be your son, daughter, stepson, stepdaughter, brother, sister, stepbrother, stepsister, grandchild, niece, nephew, adopted child or foster child. Also, don't forget that you must provide at least half of the child's support during the year and the child generally must have lived with you for at least half of the year. The child cannot file a joint return (or file it only to claim a refund) and you must provide a Social Security number for the child on your tax return.

New this year is a $500 nonrefundable credit, also known as the family credit, for qualifying non-child dependents and qualifying children aged 17, 18, or under 24 if a full-time student. A non-child dependent must be a close relative or live with you. Their taxable income must be less than $4,150 for the year, and you must provide over half of their support. The non-child dependent also must be a U.S. citizen, U.S. national or U.S. resident; however, the Social Security requirement does not apply, though you'll still need a taxpayer identification number.

Milton Cooley, EA

ADMITTED TO PRACTICE BEFORE THE IRS ENROLLED AGENT

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Out-of-pocket business expenses

Ask your employer to set up an accountable reimbursement plan instead

Beginning in 2018, employees are no longer able to deduct out-of-pocket business expenses, including professional dues and licenses, tools and equipment, uniforms, continuing education, and work-related travel, meals and lodging. Instead of footing the bill for these business expenses, ask your employer to consider setting up an accountable reimbursement plan. If your employer sets up an accountable plan, you can submit proper documentation for required expenses and subsequently receive tax-free reimbursement. In addition, the employer gets a tax deduction for the payment. If your employer does not want to set up an accountable plan, you could request an expense allowance to help cover your costs. The employer will need to include this allowance on your W-2; however, it would help reduce your out-of-pocket total.