TaxTips

Keeping You Informed ▪ Winter 2017-2018

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Eat, drink and be merry tax reform is here

The bill is yet to come

Tax reform was passed into law in December 2017. If measured on a strictly cash flow basis, there will be huge winners, small winners and small losers. The huge winners will be corporations and millionaires. Everyone else is either a small winner or a small loser. But there is more to tax reform than just how much money you save. Maybe you are feeling especially prosperous and want to take your rightful place with the winners. Just make sure your tax bracket will be included among those who are sure to receive the lion's share of tax reform benefits.

We have two basic types of tax clients, let's call them type A and type B. Type A clients have either managed to or aspire to accumulate enough assets to provide for a comfortable existence based on a lifetime of toil, sacrifice and thrift. This is the type of client who most likely will come to Tax On Wheels, LLC for tax help. Then there are the type B clients who through some combination of both skill and luck manage to generate enough annual income in multiple tax years that they are debating the advantages and disadvantages of whether to lease a private Jet versus just buying it outright. We don't get many type B clients; in fact we don't have any. So when we are evaluating economic concepts and proposals we tend to nurture a healthy bias towards the needs of the people who come to us for help with their taxes. It is in this light that we have come to the conclusion that Tax Reform, as it currently exists, is most likely to have a negative impact on the lives of our clientele far beyond anything it saves them in tax reductions.

Based on our very rough, purely unscientific, early calculations, we anticipate that our typical tax client will realize a tax reform savings of somewhere around $1000 to $1,500. This equates to about $20 to $30 per week that no longer has to be paid to the government as taxes. Yes we all could use a few extra dollars to spend on life's little necessities, but those tax savings come at the cost of increasing the federal deficit by well over a trillion dollars. With federal deficits that large there will surely be increasing pressures to reduce expenditures on things all of our clientele still want and need, namely, the social safety net. That means there will be less money to spend on things like Social Security, Medicare and Medicaid in the future.

Now compare your tax savings to that of the Apple Corporation, maker of the ubiquitous i-Phone, and one of the largest most prosperous corporations in the world. It is estimated that Apple alone will pick up a cool $47 billion in tax reductions all by itself. And there are lots more corporations all looking for their share of tax reductions. Given a choice between enough pocket change to buy an extra tank of gas every week versus a stable social safety net for ourselves, our parents and perhaps even our children, I think most of our clients would choose the social safety net. Therefore, in our humble opinion, tax reform looks to us to be something of a disaster in the making.

Speaking of disasters, there was a similarly structured tax reform during the George W. Bush administration. Remember those $300 checks they mailed out to everybody to help "stimulate the economy". That whole

deal went bad relatively quickly. One day they are sending out checks to everybody, a few short years later the American economy was staring into the abyss of a second Great Depression with the entire global economy on the verge of total collapse. You may want to hold on to those tax savings, you may need it in the future.

We will have more to say about Tax Reform this summer in the next issue of Tax Tips. The vast majority of tax reform changes will have little to no impact on 2017 tax returns; the big changes take effect for 2018 tax returns. Therefore, we will wait until the IRS publishes its interpretations of the new tax law before we dive into the details.

In the meantime, here are a few tax reform highlights to get you started. The tax rates have been reduced. Personal exemptions have been eliminated and the standard deduction has been doubled. This means a lot fewer people will qualify to itemize deductions. But that won't matter much since they have eliminated most itemized deductions anyway, except medical expenses, charitable contributions. They have also limited the amount of state taxes that will be deductible. Mortgage interest deductions are also limited to loan values below $750,000 and home equity loan interest will no longer be deductible in many cases. Court ordered alimony on newly established divorces will no longer be deductible to the payer and no longer taxable to the recipient (make sure your divorce attorney is aware of this if you anticipate a divorce going forward so alimony can be negotiated with this in mind). Alimony payments established before the new law took effect will continue to be treated as it previously was treated. Self-employed business owners may now qualify for a new 20% deduction assuming you meet the qualifications imposed by the law. As always, we are here to answer your questions so give us a call if we can help you figure out where you stand under the new tax laws.

Preparing for Your Tax Appointment

Getting organized saves valuable time

Tax time always seems to come around sooner each year, and if you're like most people, you make a vow to be better prepared for next year. Well next year is here and it's time to gather together all those tax records you've been saving. You can help your preparer by sorting through your papers and separating them between income and expenses.

Make sure you have all your W-2s if you held more than one job during the year. Employers are required to issue a W-2 to all employees by January 31. If you are self-employed, make sure you have received all your 1099-MISC forms from each person for whom you provided services and were paid $600 or more. If you were paid less than $600 from one or more persons, the income is still taxable even though there is nothing issued to you reporting it.

If your tax situation has not changed significantly from last year, you can use your 2016 income tax return as a guide for organizing your information. By looking over last year's return, you'll be reminded of what investments you have, if any were sold, and which statements to bring to your tax appointment. If investments were sold during the year, the broker will issue you a Form 1099-B reporting the sale date and the sales proceeds. You'll have to provide me with the cost of the investment so I can determine the proper gain or loss.

If you have added a family member this past year, be sure to have that person's social security number on hand. A social security number, or some other taxpayer identification number, is required for all persons for whom you claim a personal exemption.

We have put up a special page on our website to help you prepare for your tax appointment. For a more detailed discussion of the documents that may be needed, point your web browser to: *https://taxonwheels.com/what-documents-do-i-need-to-prepare-my-tax-return/*

Substantiating Business Expenses

Don't forget to save those receipts

As a business owner, one of the most important things you should do is keep good records. Without them, the IRS may disallow some of the expenses you incur if it chooses your return for a closer look. Maintaining good records should be done throughout the year. Keeping receipts, credit card statements, bank statements, and canceled checks is a must. Set aside a spot in your office for expenses and sort through them periodically. Group similar expenses together and total them. Keep receipts for large purchases, such as equipment or capital improvements, separate because they are reported differently on your tax return. Staying organized will give you a better idea of the expenses you are incurring and what your bottom line will be. An added benefit is that when it comes time to file your tax return, you'll be more prepared.

Automobile Expenses

Which is better, deducting the standard mileage rate or claiming actual expenses?

With the standard mileage at 53.5 cents per mile for 2017, it might be time to revisit what yields the more substantial deduction—the standard mileage rate for each business mile, or your actual car expenses. If this is the first year you have business use of an automobile, you don't have to decide which method yields the better result until you file your return. If this is not the first year you have business use of an automobile, you cannot switch to the standard mileage rate in a later year if you started with deducting the actual expenses. On the other hand, if you started with deducting automobile expenses using the standard mileage rate, you can switch to the actual expense method.

Admittedly, claiming the standard mileage rate is a lot easier for most of us. All we have to do is keep track of our business miles and multiply them by the current rate. In addition, you may also deduct your costs for parking and tolls and, if you are self-employed, the interest on your car loan. Claiming actual expenses requires a bit more diligence in your recordkeeping. Doing so, however, may pay off in the end by giving you a larger deduction.

First, you must keep receipts for all your gasoline and oil, repairs, tires, licensing and registration fees, insurance, garage rent, lease fees, parking, tolls, and rental fees. If you are self-employed, you may also take the business portion of any interest you are paying on a car loan. Luxury and sales taxes are not deductible under any circumstance, although the amounts you pay can be added to your cost and recovered through depreciation.

Regardless of the method you choose, the expenses are limited to your business-use percentage. This percentage is calculated by dividing your total business miles by your total miles driven for the year. It's wise to make note of your odometer reading on January 1 and again on December 31.

Business Owners Beware

Scammers are after your data

For years, we have heard stories about how identity thieves hack into computers and steal personal information. We have been assaulted with phishing scams where thieves impersonate IRS employees and intimidate innocent taxpayers into paying large sums of money for taxes they don't owe. No one is immune to this threat. Individuals in all 50 states have been targeted.

Now the thieves are targeting business owners. To put things into perspective, through June 1, 2017, the IRS identified approximately 10,000 business returns as potentially theft-related compared to about 4,000 for calendar year 2016 and 350 for calendar year 2015.

This coming filing season, the IRS will be asking tax professionals to gather more information on their business clients. All the data being collected assists the IRS in authenticating that the tax return being submitted is the legitimate return and not an identity theft return. Some of the new information people may be asked to provide when filing their business, trust or estate client returns include:

- The name and social security number of the individual authorized to sign the business return. Is the person signing the return authorized to do so?
- Were estimated tax payments made? If yes, when were they made, how were they made, and how much was paid?
- Is there a parent company? If yes, what is its name?
- Additional information based on deductions claimed.
- Has the business filed Form(s) 940, 941 or other business-related tax forms?

Now is a good time to determine if you need an employer identification number. If you are required to have one, the IRS will ask for it.

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An Age To Remember

Knowing key tax birthdays can help trim your annual tax bills. Below are some quick tips.

Age	Tip
0	If your child is born during the year, even as late as 11:59 p.m. on December 31, you can claim a dependency exemption for your child. This comes with one catch. You need to file for the child's social security number (SSN) and include it on your tax return. If you don't, the dependency exemption is denied, along with any potential for certain tax credits. If your dependent doesn't have and can't get an SSN, you must show the individual taxpayer identification number (ITIN) or adoption taxpayer identification number (ATIN) instead of an SSN.
0-12	The good news is you gain tax advantages by contributing to your employer's flexible spending account to cover child care expenses, or you may qualify for a child care credit on your tax return. The bad news is that any investment income over $2,100 in your child's name is taxed at your rate until the child reaches age 27.
13	Once your child reaches age 13, you no longer qualify to take the child care credit. Eligibility is determined on a daily basis.
16	This is the last year your child qualifies you for the $1,000 child tax credit.
18	If you own a business, you can pay your children to work for you and avoid paying Social Security and Medicare taxes on their wages. Once they reach age 18, you are required to withhold payroll taxes like any other employee.
27	At this age, children are taxed at their own rates on investment income. In addition, they are no longer eligible for their parents' health insurance benefits.
50	Congratulations. Not only have you reached the half century mark, you can contribute an additional $1,000 to your IRA, bringing the total contribution limit to $6,500.
55	You and your covered spouse are eligible to make an additional $1,000 contribution to your HSA.
59.5	This is the magic age when you may take money from IRAs and retirement plans without incurring the additional 10% penalty for early distributions. There are exceptions to the penalties if you are younger, but this is the age when you may take penalty-free distributions for any reason.
65	Once you reach age 65, you qualify for an additional standard deduction and, if certain conditions exist, a tax credit. For tax purposes, you are considered to reach age 65 on the day before your 65th birthday.
70.5	At this age, you are required to begin distributions from your traditional IRA. If you have a Roth IRA, this rule doesn't apply. If you have a retirement plan with your employer, you are still working, and you do not own more than 5% of the company, you can delay distributions even if you reach age 70½.