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November 30, 2018

The year 2018 is almost over; how time flies! In this letter we want to make you aware of some of the tax changes effective for 2018 and give you some ideas on how you can still make tax moves before the end of this year to save you and your business tax dollars.

All of our staff have now completed a minimum of two (2) full days of tax education for the 2018 tax season. We are here and ready to serve you.

New Tax Bill

As you are aware, the President signed The Tax Cuts and Jobs Act (TCJA) effective for 2018. This is the biggest overhaul of the federal tax code in more than 30 years. It will have a major impact on individuals and small businesses in 2018 and beyond.

Personal Income Taxes
Changes for 2018

1. The TCJA revamps the individual tax rate structure by reducing rates and expanding brackets. This should be a benefit for most taxpayers in 2018.
2. The TCJA preserves the favorable tax treatment for long-term capital gains and qualified dividends.
3. The TCJA almost doubles the standard deduction to $12,000 for single filers, $24,000 for joint filers and $18,000 for head of household.

Due to the higher standard deductions more taxpayers will claim the standard deduction in 2018 for Federal tax purposes but it may be beneficial to itemize deductions for New York State. Accordingly, you should still keep track of your itemized deductions for 2018.

Some Changes to Itemized Deductions

If you expect to itemize for 2018, you can still benefit from the charitable contribution deduction.

For the mortgage interest deduction, the limit for home acquisition debt is reduced to $750,000. The prior $1,000,000 acquisition debit limit for prior loans is grandfathered.

For home equity loans, however, interest is only deductible if the funds were used to buy or substantially improve the home that secures the loan. Accordingly, we will need to know how the proceeds of your home equity loan were used. If you used the cash to pay off a credit card, purchase a car or pay other personal debts, then the interest is not deductible, even if the payment occurred prior to 2018.

The TCJA significantly reduces the deduction for state and local taxes claimed by itemizers. Your deductions for State and local taxes (State income tax and real estate property tax) cannot exceed $10,000.

The TCJA revives the lower 7.5% of Adjusted Gross Income threshold for medical expense deductions. Prior to TCJA you could only deduct medical expenses to the extent they exceed 10% of your Adjusted Gross Income

The list of deductions that <u>won't be available</u> after 2017 include:

- Casualty and theft losses, except for federal disaster-area losses
- Job related moving expenses, except for active duty military personnel
- Investment expenses
- Miscellaneous expenses, including tax preparation fees, investment adviser fees, and employee business expenses.

The TCJA preserves deductions for

- IRA contributions
- Gambling losses
- Education expenses

<u>AMT</u>

The dreaded alternative minimum tax (AMT) exemption amounts are increased, along with the thresholds for phasing out the exemption amounts. As a result, many taxpayers who were hit by the AMT in 2017 will be able to avoid it in 2018.

<u>Kiddie Tax</u>

Under the new law, the kiddie tax is based on the tax rates and brackets for estates and trusts, not the parents' rate.

<u>Personal Exemptions</u>

The TCJA <u>eliminates all personal exemptions</u>, including those for dependent children and relatives

<u>Child Tax Credit</u>

The TCJA <u>doubles the child tax credit</u> for each qualifying child from $1,000 to $2,000, ($1,400 of which is refundable.) The TCJA also creates a new $500 credit for non-child dependents and child dependents over the age of 16.

Alimony

Under the new tax law, alimony payments are no longer deductible by the payer and aren't taxable to the receiver. This provision doesn't take effect until 2019. For agreements executed before 2019, the current rules will continue to apply.

Education Benefits

The new tax law preserves both the American Opportunity Tax Credit and the Lifetime Learning Credit. The new tax law also retains the above-the-line deduction for student loan interest. Furthermore, the use of Section 529 plans is expanded. You can now take tax free 529 account withdrawals of up to $10,000 annually to cover qualified expenses for kindergarten through 12th grade at public, private or religious schools. Unfortunately this new benefit is not available for New York State Tax purposes.

Health Insurance Mandate

The new tax act abolishes the individual health insurance mandate under Obama Care, but not until 2019. So this is the last year you may owe a penalty.

Gift Tax

Gift tax exclusion- you may give up to $15,000 tax free to each donee in 2018.

Business Income Tax Changes for 2018

The TCJA provides some tax savings opportunities for small business owners.

1. Under the TCJA, C-Corporations will be taxed at a flat rate of 21% compared to the previous graduated tax-rate structure with rates from 15% to 35%.
2. The TCJA increases the Section 179, first year write off expensing allowance from $500,000 to $1,000,000 for 2018. Remember the assets purchased must be "placed in service" before the end of 2018.
3. The deduction for Qualified Domestic Production Activities is repealed for 2018.
4. Under TCJA, certain building improvements qualify for a 15 year recovery period using straight line depreciation.
5. Bonus depreciation under TCJA is increased from 50% to 100% for qualified business property placed in service for the next five years. Further, qualified business property is expanded to include used, not just new property.
6. The depreciation for so-called "luxury cars" used for business purposes has increased under TCJA. For example if you acquire a "luxury car" for your

business the maximum first-year depreciation for 100% business use is now $10,000 as compared to $3,160 in 2017.

7. Another very important change for 2018:self employed individuals and owners of many pass-through entities-such as partnerships, S Corporations, and limited liability companies can deduct 20% of the net business income on personal returns. In effect <u>you may only be taxed on 80% of your small business income</u>.

8. A change that is not very well publicized is that a <u>deduction is completely eliminated for business related entertainment expenses.</u> However business owners can continue to deduct 50% of qualified business meals. The meals, to be deductible, must be purchased separately from entertainment expenses.

9. The TCJA modifies the provision providing for nonrecognition of gain in the case of like-kind exchanges by limiting its application to real property. So for 2018 and beyond, if you trade in a vehicle used for business such as a truck or car, you must report the gain on the trade

<u>Tax Planning for Individuals</u>

- <u>Evaluate itemized deductions versus the standard deduction.</u>

The TCJA roughly doubles the standard deduction and, at the same time, eliminates or limits certain itemized deductions. Consider bunching deductions such as medical expenses and charitable contributions in every other year.

<u>Retirement Plans</u>

If you have earned income or are working, consider contributing to retirement plans.

- <u>Harvest capital gains or losses.</u>

This is the time of year to look at your investments. If you have losses, it may be well to realize these losses to offset capital gains realized earlier plus up to $3,000 of income. Any excess loss is carried over to the following year. <u>On the other hand</u> you could harvest capital gains that can be absorbed by losses realized earlier this year. Also, if you are in the two current lowest income tax brackets of 10% and 15% ($38,600 for single filers and $77,300 for joint filers) you may want to harvest capital gains, since the capital gains tax rate in these brackets is 0%.

529 Plans

If you are paying tuition for your children or grandchildren to attend elementary or secondary schools, consider a 529 plan as a tax efficient way to pay this tuition.

Employee Business Expenses

The new tax bill, however, shuts down the write offs for corporate employees since the miscellaneous itemized deductions are suspended. Instead have your company reimburse your home office and other business expenses. In that way you will not be taxed on the reimbursements and your company can deduct the reimbursements.

Small business tax moves for 2018

Max out Section 179 Capital Expenditures.

Under current tax law, a business can currently deduct, under Section 179 of the tax code, the cost of qualified New or Used property placed in service during the year up to $1,000,000 or your taxable business income, whichever is smaller. Take advantage of this increased expensing allowance.

Bonus Depreciation

The TCJA improves another tax provision. For qualified property placed in service in 2018 your business can claim a 100% bonus depreciation deduction up from 50% in 2017.

Salvage bad debts

If you account for your sales on the accrual method, you can deduct business bad debts that have become totally worthless if you make good-faith efforts to collect the past due amounts. Be sure to keep detail records of all your collection activities.

Bonuses

You might consider bonuses to employees to reduce your taxable income for 2018 and motivate and reward employees for their work effort this year.

Business Start Up Expense

If you started a new business in 2018 and are “open for business” before January 1, 2019 you may deduct up to $5000 of qualified start up expenses this year such as certain advertising, marketing, legal and accounting expenses as well as fees paid to outside consultants. Any excess start up expenses above $5000 must be amortized over 180 months.

Home office deduction

As a small business owner you may qualify for a home office deduction. You can deduct the actual direct costs of the office as well as prorated costs of the home, or you can use the simplified method to claim a deduction. In either case you report these costs on your Schedule C.

New York State Changes

In prior years,New York State tax law required taxpayers who itemized on their federal return to also itemize on their state return. This is no longer the case, you can now take the standard deduction for Federal Tax purposes and itemize for New York State.

For New York State in 2018:

a) There is no $10,000 limitation on real property taxes

b) Mortgage interest deductibility is unchanged for 2018

c) Miscellaneous itemized deductions remain in place.

d) New York retains the rules that allow deduction from adjusted gross income for payment of alimony and includes alimony in the income of the recipient.

e) New York still allows the deduction for moving expenses by other than the military.

Accordingly, it will still be important for you to keep track of your itemized deductions because they may benefit you for New York income tax purposes.

CHILDREN

Communicate with your working children regarding taxes. We had several instances where, in a haste to obtain their tax refund, working children filed their own tax return claiming themselves as an exemption, when this benefit would be greater if the parents claimed the child as a dependent.

As you can see there are many changes for 2018, As a result, it may take longer to prepare your tax returns for 2018, so we encourage you to bring your tax information to us as soon as possible.

Please feel free to contact us to discuss any of these matters or to discuss actions you can take before the end of the year to reduce your taxes. We are here to help.