JS Associates

Tax And Bookkeeping

What's new this year in Tax? Lot's and Lot's!

Preface-Important stuff here too!

I am giving discounts this year for people who make their appointments early. This will help offset the approximate 10% price increase I have had to make. Some of you will experience less than that, some of you more depending on whether you qualify for any of the new deductions or how much your California return needs to be adjusted from Federal. Please don't shoot the messenger.

The discounts are as follows: Appointment by 2/28 15% off, Appointment by 3/15 10% off. Appointment by 3/31 5% off. I should charge 10% more if you make your appointment after 3/31. You will probably need to be put on extension if you don't come in by 3/31.

As you all know, this was a big year for tax change. For Federal only! California so far has not conformed to any of it except changes affecting retirement plans. These are automatically conformed to. This means lots of adjustments between Federal and California returns. Which actually required changes in California's forms too. The Tax Reform Act should be known as the California Tax Preparer Full Employment Act.

All prior year clients should already have some idea of what's coming because we went over how the 2019 return might look like for them when we went over their 2018 return. However there is probably some new items in here that might not have been covered because the new law had come out just before tax season and no regulations had been issued yet. Also, did not have time to really look at it 'til after tax season.

The list of changes below are only the tip of the iceberg. I am just hitting the areas that impact most of my clients across the board.

Because of the huge Federal changes (not to mention time lost due to Federal shut down and the IRS's understaffed work force) actual tax return filing will probably be delayed. It is a huge project for the IRS to change/implement so many forms and have them disseminated out to the tax software companies in time for the companies to be able to make the changes in their own programs.

Even if filing will be delayed, I need you to make your appointments as early as possible. As soon as you have most of your information. That way when filing is ready to go, your returns will be too with just a little more work. You may be sure that the initial due date for returns to be filed by will still be 4/15/19.

Federal Changes Only-Non Business Related

Whatever we were doing on your return for California before, we will still be doing.

Reminder-Health Insurance Documents: Providers of Health Insurance have until March 2nd to mail to recipients. Therefore I will need other proof of insurance if you don't get your forms in time. If you have your insurance through a Govt. Website, I absolutely have to have the forms before filing. No exceptions! The penalty for not having insurance is still there for 2018. In 2019 the penalty is set to zero. . This could be brought back at any time since the actual law hasn't changed.

New-Additional Due Diligence Requirements: Head of Household has been added to the list of tax beneficial situations that a preparer must ask questions about and potentially request additional documentation to establish eligibility to use. The others are Earned Income Credit, American Opportunity Credit, and other child/dependent related credits.

Gone-Personal Exemptions: This deduction is gone. However see the Child Tax Credit increase below.

New- Child Tax Credit Increase: The old credit was $1,000 per child, The new credit is $2,000 per child and the phase out range has been increased substantially too so many more people will qualify for this credit. This is a substitution for the fact that there are no more exemption deductions. There is a limit of $1,400 refundable per child over the amount of tax paid in. Also see the new Other Dependent Credit next.

New-Other Dependent Credit: This is a $500 credit for a dependent that doesn't qualify as your "qualifying child". A person that you could have taken had a dependent exemption for last year. Like your mom who lives with you.

New- Major Increases in the Standard Deduction: The standard deductions for each filing status are now about 90% more than they were last year. Another offset to the lack of personal exemptions. This means that many of you will not be itemizing. For Federal anyway . If you were itemizing for California before, you still will be.

Itemized Deduction Changes: Again-Federal Only!

* One piece of good news, higher income taxpayers are no longer having their deduction phased out

* Medical Expense "haircut" still sits at 7.5% for 2018. For 2019 it's 10% - for everybody including Seniors

* Casualty and Theft Losses are only available for Federally Declared Disaster Areas. This means that if your house burns down, you will get no help on your Federal taxes if you have a loss. Check your insurance people! Of course if you have a casualty "gain", it will still be taxable!

* Any expenses that were subject to the 2% "hair cut" are no longer deductible (with certain very special exceptions. The means employee expenses, investment expenses, tax preparation fees and a few others.

* State and Local Taxes paid including property taxes on your non business property are limited to a total of $10,000. This is the single biggest reason why you may not be itemizing for Federal.

* Home equity interest will no longer be deductible unless that debt was used to buy or improve your main home. That includes debt that is inside your first mortgage if you have a "rollover" mortgage. Prior to 2018, you could deduct non home related equity debt interest on balances up to $100,000. For homes purchased after 12/15/17, The total acquisition and home improvement debt limit is now $750,000 not the $1,100,000 it was before. After 2025, all home debt will be subject to this limitation regardless of when incurred.

* Refinanced Home Acquisition debt now has time limits on how long you can take an interest deduction for. Example: Your loan was originally a 30 year loan and 15 years later you refinanced it for 20 years. You can only take interest deductions for the next 15 years. Not the 5 extra you are spreading out the payments over. Two exceptions, if additional funds added to the original were used for home improvement then you get the full time limit of the new loan or if the original loan had a balloon payment. Then you get 30 years.

Alimony Changes: For divorces after 2018, alimony paid is not deductible by the payor and alimony received is not taxable by the recipient. Alimony agreements prior to 2018 are not affected unless they are specifically modified to conform to the new rules.

Moving deduction for employment related change of address is gone except for Military.

529 plan funds can now be used to fund pre-college educational expenses without tax or penalty-for Federal.

Employee Stock Options: There is a new ability to defer income from exercise of stock options for non publicly traded companies.

Deductions and Credits that will be expiring soon-Not much to see here

* Solar Energy Credits will be available through 2021 but the credit % will be 26% in 2020 and 22% in 2021 instead of 30% through 2019

Keep reading for California and Federal Business related-including Rentals

California

No big changes here except for having to translate Federal returns into California returns.

Reminder- Use Tax: Since 2017, Taxpayers must now certify (under penalty of perjury) on their California returns whether or not they purchased property out of state that was brought into California. This includes going on vacation and bringing home trinkets as well as online shopping. There is a table in the tax return that can be used to calculate use tax due if all of the purchases were less than $1,000 each. If any were above $1,000, then another worksheet applies. A return can also be filed at CDTFA.com

Federal Changes Only-Business Related

Whatever we were doing on your return for California before, we will still be doing. More Adjustments!

Meals and Entertainment Expenses: These deductions took a big hit. Entertainment expenses are not allowed at all. This means taking the client golfing, ball game, etc. You can pay for the hot dogs at the ball game however because food and drink are still allowed if the taxpayer or taxpayer's employee is present at is for the purpose of having a business discussion. . Meals for work related travel are still allowed as well.

Net Operating Losses: Can now only be carried forward except for farmers. Also, the NOL deduction can only be used up to 80% of the taxable income in the year it is carried to. So no more complete wipe out of tax in any year due to NOL carry forward.

C Corporation Tax Rate: This is no longer a progressive rate but a flat 21%. This may be good news for Personal Service corporations big or small or larger non "service" corporations but smaller ones will be paying more taxes unless they equalize by paying out more in wages to shareholder/employees to get the profits down.

Bonus Depreciation: Can now be used to write off 100% of newly purchased assets and it now applies to new-to-you (used) property as well as new property. The % is not permanent but has a phase out starting in 2023. This is a better deal than the Safe Harbor expense method because any gain on sale of assets over the original purchase price are Capital in nature and not subject to Self Employment tax. Also better than section 179 because there is no recapture for drop in business use to 50% or less or an income limitation.

Section 179: Is now up to $1,000,000 total election subject to phase out.

Corporate Alternative Minimum Tax: This is gone too.

Like Kind Exchanges: No more deferral for non realty property. If you do a vehicle trade in, you will recognize the loss or gain at that time.

Deduction for Qualified Business Income: This deduction replaces the Domestic Production Activities deduction and is the big news for business this year. This new deduction and the new C Corporation tax rates may make an impact on what entity type a business may want to choose.

This is a 20% deduction on the 1040 against trade and business income from Sole Proprietorships and pass through entities like Partnerships and S-Corps. This includes any publicly traded partnerships some of my clients regularly invest in.

The deduction is, of course, not cut and dried. Nothing can be easy. There are income phase out limits and wage limits and type of business restrictions too if the business makes more than a specified amount of income. Certain types of income or loss are not includable in the calculation either. Most of the limitations, except wages, should not affect any of my clients.

Real estate rentals are an issue here. There is no bright line test and nothing in the regulations that indicate that rental real estate qualifies as a "trade or business" for this new deduction unless it is effectively connected with a trade or business. Like rental of realty you own to a corporation that you have the majority stake in. The IRS defines trade or business as the selling of products or services. Real estate rentals do not meet this standard. That being said, tax professionals are on both sides of the fence on this as well as middle of the road. The middle of the road crowd says that rentals should qualify if they are self-managed instead of having a property manager if the rental is engaged in for profit instead of for asset appreciation. However, trades & businesses are subject to self employment tax and real estate rentals have

not been unless significant services are provided as well. Like hotels etc. I believe that real estate rentals do not qualify. It would be nice to have input from the IRS but we have been waiting for that for years.

ID Theft-An annual reminder

There are many fraudsters out there pretending to be from the IRS or the Franchise Tax Board both by phone and e-mail. They are very aggressive and threatening. I have had 2 members of my own family hit with this.

If you get any E-mail's or any calls from any source saying you owe money and you should pay it now, don't do anything until you talk to me no matter how threatening the call or how official looking the e-mail. Never, ever give anybody your banking, credit card or social security information over the phone or through e-mail no matter how much they already seem to know about you. The Government certainly does not take Gift Cards in payment as one scam has. You may lose hundreds if not thousands of dollars because once one fraudster has it, they will sell it to others.

There are many other scams out there as well. People even pretending to be relatives in need of money. The famous quote from the old "X-files" TV show is appropriate here "Trust No One". At the very least, verify with an independent source. Please, please don't open e-mails unless you know it is from someone you know or a reputable company. If the subject matter seems suspicious look at the "raw data" in the message for the real source. "From" names can be faked!

Both the IRS and FTB do send Identity Verification letters. Forms 5071C and FTB 4734D. If you get one, bring it in anyway. The fraudsters are very good at producing documents that look like the real thing. Confusing the matter is the fact that the IRS is now using 3rd party collection agencies next year for some old tax debts. Taxpayers will be notified by IRS letter of the assignment of their case. The collection agencies sole responsibility will be negotiation. Any payments on account will be remitted to the US Treasury/IRS using normal methods, checks, credit cards etc. to the normal IRS addresses (check with me).