October 2018 Newsletter

ANNOUNCEMENTS FROM OUR FIRM

Have you heard about the new Qualified Business Income Deduction?

Replacing the Domestic Production Activity Deduction (DPAD), this new deduction allows individuals who meet the criteria to take an additional deduction of **up to 20% of qualified business income**. This includes trade or business income such as:

- Income reported on a Schedule C
- Pass-through ordinary income from a S-Corporation or Partnership on a Schedule E
- Some rental income reported on a Schedule E may qualify

The Qualified Business Income Deduction (QBID) generally applies to ordinary business income, but **excludes all forms** of capital gains/losses, dividends, or interest income.

This deduction is **limited or eliminated** for taxpayers with taxable income exceeding $315,000 for married couples or $157,500 for all other filers.

Contact us to schedule a tax planning appointment if you would like to discuss how this change will affect your tax situation!

Do you make online sales to customers outside of Idaho?

A recent Supreme Court ruling, *South Dakota v. Wayfair, Inc*., is a significant and troubling change to the landscape of sales tax law.

Before this ruling:

- Businesses could avoid nexus (possible tax liability and a sales tax filing requirement) for sales & income taxes for any states in which the business **did not have a physical presence**. This doctrine allowed rapid growth of Internet-based sales for businesses without adding additional reporting and filing requirements.

After this ruling:

- South Dakota's new sales tax law has been **upheld**. This law requires that all retailers are to collect and remit sales tax, **even if they have no physical presence** in the state, if they have over $100,000 of South Dakota sales or more than 200 transactions in the state.

- Wyoming and New Jersey have a sales tax law with **identical requirements** to South Dakota: Retailers must pay sales tax if they have $100,000 sales in the state or more than 200 transactions in the state.
- Oklahoma, Pennsylvania, and Washington have adopted sales tax laws requiring vendors to either report sales to buyers or collect and remit sales taxes. These laws will apply to remote sellers with **a mere $10,000 in sales** in the state.
- A number of states, including Colorado, Connecticut, Hawaii, Kentucky, North Dakota, and Wisconsin appear to be **preparing to implement** sales tax laws that will be enforceable on remote sellers.

The list above is **not comprehensive** and the number of states with sales tax laws affecting online sales will continue to increase. Each month, more states announce new sales tax laws and reporting thresholds.

Not every state is implementing the same threshold, so **sellers can't use a "de minimis" rule** across all states. Sellers need to know sales tax rules for each state in which they do business or make online sales.

So what can a seller do? Here are a few options:

- The **'Overstock Approach'** (so called because it's how Overstock is handling the problem). Register for sales tax in every state that you have sales in and collect and remit taxes in each jurisdiction in which you make any sales.
- **Research sales tax rules** in every state in which you make sales. Consider thresholds and whether you may exceed them. Register in those states where your business is over the threshold for local sales tax laws.
- You may want to **engage a company with expertise** in the area of sales taxes to keep you up to date and make sure you are aware if any state you're doing business in makes a change.

Contact us if you have any questions about sales tax law changes and how they may affect you.

Business Changes Under the New Tax Law

In case you missed our free seminar on tax changes for businesses in 2018, here's a recap:

- Easing of depreciation rules:
  - Section 179 expense limit increased to **$1 million**
  - Bonus depreciation is increased to **100%** on qualified property
- Fewer businesses required to use accrual basis: You can now continue to use cash basis until gross receipts exceed **$25 million**.
- Interest Expense Limited to 30%: A business can deduct interest but only to the extent of **30%** of the sum of Adjusted Taxable Income and Taxable Interest Income.
- Entertainment expenses **no longer deductible**. Formerly limited to 50%, entertainment expenses are now entirely nondeductible and should be separated from meals.

- Limitation on active pass-through losses. Formerly unlimited, these losses will now be **limited** to $500,000 for married couples filing jointly, $250,000 for all others.
- Reduction of federal and Idaho income tax rates.
  - Corporate tax rates will now be a **flat 21%** for federal tax. The top rate for Idaho corporations is now 6.925%.
  - The federal individual **tax rate structure has changed** to reduce most taxpayers' top tax bracket by 2-3%. For example, most taxpayers in the 15% bracket for 2017 will be in the 12% bracket for 2018. You can find out more detail on the new tax brackets **here**.
  - Idaho has **decreased** its top individual tax rate to **6.925%**.

Contact us if you have questions about how these changes will affect your tax situation!

Office Hours

Our current office hours are 9:00 am to 5:00 pm, Monday-Thursday and CLOSED on Fridays.