



December 2018 Newsletter Tax Year In Review

2018 HAS BEEN A BIG YEAR FOR CHANGES IN TAX LAW!

We've covered a lot of the 2018 tax law changes in our newsletters throughout the year, but we thought it would be useful to our clients to have an overview of some of the most commonly applicable changes, and we've included some **free tax tips!**

The 1040 is now a "postcard" - but don't be deceived! The IRS also added six brand new forms, Schedules 1-6, because the reality is that many tax returns are becoming more complicated, not less.

Individual tax brackets - The bracket structure has changed to reduce most taxpayers' top tax bracket by 2-3% (the 15% bracket is now the 12%, the 39% is now the 37%, etc.) The top Idaho tax bracket has also been reduced from 7.4% to 6.925%.

Withholding changes - Your withholding adjusted automatically during the year because of new federal and state withholding tables. At both the federal and state levels, we are hearing projections that withholding may have decreased too much and that more taxpayers may owe additional tax this year. **Tax Tip:** *As 2019 approaches, please take some time to review your withholding and make sure you think it is on track.*

Pretax retirement plans - 401k's, 403b's, and 457's are not affected by the changes in tax law and are still a great way to reduce your tax liability each year. For 2019, employees can contribute up to \$19,000 to a 401k plan, and employees over age 50 can contribute an additional \$6,000 as a "catch-up" contribution. **Tax Tip:** *If you aren't already maximizing your 401k contributions, do that first before paying for a tax projection to look for other tax reduction ideas.*

Personal exemptions - The personal exemption has been repealed. For 2017, taxpayers were permitted to deduct \$4,050 for each individual claimed on the tax return. That amount will be zero for 2018.

Itemizing deductions - The standard deduction is just about doubling for 2018, rising to \$12,000 for single filers and \$24,000 for taxpayers married filing jointly. We expect that fewer taxpayers will be itemizing deductions for 2018.

Charitable contributions - These are still deductible for 2018 and beyond, but they only benefit taxpayers who itemize. **Tax Tip:** *Consider "bunching" your charitable contributions by pre-paying your charitable giving or using a donor advised fund. ****Bonus Tax Tip:** If you are retired, over age 70½, and have an IRA, make your charitable contributions by a direct IRA to charity transfer - this can save significant income tax! [Contact us to learn more.](#)*

Child tax credits - The child tax credit increased from \$1,000 to \$2,000 for qualifying children, and the phase-out increased as well. Idaho added a child tax credit of \$205 per qualifying child. There is also a new "other dependent" credit for dependents who don't count as a qualifying child. [Contact us to learn more.](#)

Mortgage interest and home equity interest - Other than acquisition debt or a refinance of acquisition debt, these are no longer deductible, and the limit on the mortgage size has been decreased to \$750,000.

Miscellaneous itemized deductions - Miscellaneous itemized deductions are no longer deductible for 2018, including unreimbursed business expenses for W-2 employees, casualty losses, tax preparation fees, investment expenses, hobby losses, and some legal fees. ***Tax tip:*** [Contact us to learn more.](#)

Health insurance penalties - Though the penalty for being uninsured has been reduced to zero, that change does not take effect until 2019. The penalty will still apply to 2018 tax returns.

AMT - Alternative minimum tax has been eliminated for corporations, and for individuals the exemptions have been increased, so many taxpayers who paid AMT in 2017 will not have it in 2018.

NOLs - Net operating loss rules are less favorable. They will no longer be carried back to offset past years' taxes and their usage will be limited to 80% of taxable income for future years.

Moving expenses - Moving expenses are no longer deductible except for members of the Armed Forces.

Alimony - For divorce agreements finalized after 12/31/18, alimony will no longer be deductible. If both parties agree, taxpayers modifying an older agreement can opt in to this treatment also.

529 college savings plans - These can now be used for K-12 education as well. Up to \$10,000 per year can be used tax-free to pay for K-12 education costs.

Qualified business income deduction - This new deduction allows taxpayers to deduct up to 20% of income from their business. Sole proprietors, partnerships, and S corporations may be eligible for this deduction, and many rentals will also qualify. The deduction phases out for some high income taxpayers.

Sales tax for online sales - A Supreme Court ruling paved the way for states to pass new laws requiring out-of-state retailers to collect and remit sales tax even when they have no physical presence in the state. We recommend that businesses have a strategy in place for keeping on top of sales tax requirements to make sure they don't run into trouble in this area.

Depreciation - The limit for Section 179 expense deductions has been increased to \$1 million, and bonus depreciation is available for 100% of qualified property. Because of these changes, many assets will be able to be deducted in the first year they are placed in service.

Entertainment expenses - Entertainment is no longer deductible and should be separated from meals. (See our article below.)

Passthrough losses - These will now be limited to \$500,000 for married filing jointly, \$250,000 for all others. In the past, only passive (investment) losses from passthroughs were limited.

Corporate tax rates - These have been reduced to a flat 21% for federal tax and 6.925% for Idaho income tax.

As you can see, many tax laws underwent significant modification in 2018! Please [contact us](#) if you have any questions about how these changes will affect your situation.

ARE YOU REQUIRED TO FILE 1099S?

As the end of the year rolls around, it's a good time to start thinking about reporting requirements. If you have business or rental income and you or your business paid a vendor over \$600 for services (subcontractors, rents, service providers, legal fees, etc.), you may be required to send the recipient(s) a 1099-MISC form for tax reporting of amounts paid for services. Please contact us by **Monday, January 21st** if you would like our office to prepare 1099-MISC forms on your behalf, since they are due to recipients by **January 31, 2019**. We are able to e-file 1099's and email recipient copies unless you prefer to paper file them.

If you would like us to assist you with 1099's, please provide us the following:

1. Vendor W-9's for each vendor
2. Vendor email address (or indicate that filing method will be U.S. mail)
3. Amounts paid and type of expense (services, rent, interest)

Fees for preparation:

\$60 - 1-5 forms

\$5 - each additional form

Fees for mailing:

\$1.50 per form for U.S. mail, or

Free emailing of forms to recipients

If you have questions about filing 1099's, or if you aren't sure whether you are required to file them, please [contact our office for assistance](#).

MEALS AND ENTERTAINMENT RULES

We have heard from a considerable number of clients who have questions about the rules for meals and entertainment or who are confused by them. This year, the Tax Cuts and Jobs Act made some changes to the rules for deducting meals and entertainment, so we thought it would be a good time to summarize and clarify some of the rules:

Meals - Most meal expenses are deductible at 50%, as long as they are ordinary and necessary business expenses under the circumstances. You may not deduct any expenses for food or beverages if the expense is lavish or extravagant or if you or an employee are not present when the food or beverages are furnished.

- Meals while meeting with a client for a business purpose are 50% deductible.
- Meals in the office during meetings, or while at a seminar or conference, are 50% deductible.
- Meals during business travel away from home are 50% deductible.

- Meals for the convenience of an employer, such as employee lunch on the premises, are now only 50% deductible (formerly fully deductible).
- Meals for a company party or picnic remain fully deductible.
- Water, coffee, and snacks at the office are now only 50% deductible (formerly fully deductible).
- Meals related to entertainment are not deductible (meals with no business conducted, or meals as part of an entertainment activity).
- Food offered to the public for free is fully deductible.

Entertainment - Under the Tax Cuts and Jobs Act, entertainment expenses are no longer tax-deductible. This includes deductions for entertainment, amusement, recreation, and club membership dues. Make sure to separate entertainment expenses from meals that are deductible.

If you have questions about how to categorize your expenses between meals and travel, or if you want to make sure your books are set up to properly categorize these types of expenses, please [contact us for assistance!](#)

Holiday Office Hours

December 24-28 and Jan 1 - we will be **closed** for the holiday season
December 31 - we will be **open from 9:00 to 3:00**

Normal Office Hours

Beginning January 2, 2019, our office hours will be **8:00 am to 5:00 Monday - Friday** through April 15.

Web: silverbridgecpas.com