CIRIMELLI, PYLE & ASSOCIATES LLP
CERTIFIED PUBLIC ACCOUNTANTS

Online Advisor – June 2018

Major Tax Deadlines For June 2018

June 15 –

- The second installment of 2018 individual estimated tax is due.

Note: Businesses are required to make federal tax deposits on dates determined by various factors that differ from business to business.

Payroll tax deposits: Employers generally must deposit Form 941 payroll taxes (income tax withheld from employees' pay and both the employer's and employees' share of FICA taxes) on either a monthly or semiweekly deposit schedule. There are exceptions if you owe $100,000 or more on any day during a deposit period, if you owe $2,500 or less for the calendar quarter, or if your estimated annual liability is $1,000 or less.

- Monthly depositors are required to deposit payroll taxes accumulated within a calendar month by the fifteenth of the following month.
- Semiweekly depositors generally must deposit payroll taxes on Wednesdays or Fridays, depending on when wages are paid.

For more information on tax deadlines that apply to you or your business, contact our office.

It's tax-planning time

Now is the ideal time to schedule a tax-planning session. Your tax return outcome is still fresh, and it's early enough in the year to make corrective action to take advantage of the numerous new tax law changes taking place in 2018. Here's a brief overview of some of the new tax issues that you need to plan for now.

#1 Income

Tax rates for both individuals and small businesses have changed substantially. Income tax deductions have also changed drastically, including a near doubling of the standard deduction and the elimination of most personal exemptions and miscellaneous itemized deductions.

- *You need to review your income tax withholding schedule and see where you fall in the new income tax bracket structure. Small adjustments here could save you hundreds*.

#2 Bunching

Because of the changes to the deductions structure, using itemized deductions may entail bunching two or even three years of expenses into one tax year. Things like donations to charity and medical expenses that you may have spread across several years are now better bunched into a single year to maximize your tax savings.

- *If you typically take care of medical expenses or charitable donations at a regular time every year, stop until you have a new tax-efficient plan. If you wish to consider a bunching approach to itemizing, you'll want to make that decision as early in the year as possible.*

#3 SALT (State and local taxes)

There's now a $10,000 combined total cap on deductions of state and local income, sales and property taxes, which is going to impact a lot of people, especially in high-tax states. This may be a big factor to account for if you've relied on this deduction in the past.

- *Get an analysis done to see how much larger your tax bill is going to be because of the cap on SALT taxes. There may not be much you can do about it other than changing where you live and own property, but you'll need to have a clear picture of how it will impact your tax return in 2018.*

#4 Mortgage interest changes

There are several new rules changing how mortgage interest is deducted. You can now no longer deduct the interest cost on mortgage indebtedness greater than $750,000. And you can no longer deduct interest on mortgage indebtedness that wasn't spent directly on buying, building or substantially improving your home.

- *If you have used a home equity loan interest deduction, you'll need to review how this will impact your itemized deductions.*

These are just a few examples of things that you'll need to review in the wake of the largest tax law changes in more than 30 years. Take some time this summer to make sure you have a plan in place.

6 tax benefits of owning a home

If you own or are considering owning a home, you can take advantage of many tax benefits. Here are six of the most commonly used homeowner's tax breaks:

1. **Mortgage interest deduction.** You can deduct the interest you pay on your monthly mortgage bill when you itemize deductions on your tax return. This can be a huge benefit, especially in the early years of a mortgage. That's because typically about 80 percent of your mortgage bill in your first year of home ownership on a 30-year mortgage goes toward interest. Principal payments don't exceed interest until year 18 of your mortgage.

   Note: This benefit is capped to apply to $750,000 in indebtedness for new loans taken in 2018 ($1 million for loans taken out in 2017 or earlier).

2. **Property tax deductions.** You can deduct up to $10,000 in combined state and local taxes. Called the SALT deduction, this can be used to deduct local property taxes, state taxes, local income taxes and sales taxes.

3. **Closing cost deductions.** You can deduct some of the closing costs of a home purchase in the year you buy it. This includes things like mortgage discount points you pay upfront to lower your interest rate over the life of your loan. Because each point costs 1 percent of your total mortgage amount, the tax deduction on these costs can be substantial.

4. **Home improvement tax breaks.** If you take out a second mortgage or what is commonly called a home equity mortgage and use it to buy, build or substantially improve your home, you can deduct the interest on that loan from your taxes. This feature is now grouped into your total mortgage indebtedness, which is capped at $750,000.

   Caution: *Interest on home equity loans used for any other means (e.g., to pay down credit card debt or to purchase a car) is no longer deductible.*

5. **Energy efficiency tax breaks.** There are special tax breaks available for renewable energy and energy-efficiency upgrades to your house:

    a. The cost to buy and install solar, wind and geothermal equipment to your main residence or a second home can be deducted by 30 percent.
    b. Energy-efficient upgrades can be deducted by 100 percent for items such as central air conditioning, furnaces and water heaters, capped at a total of $500.

6. **Capital gains exclusion.** You have the ability to exclude up to $250,000 of profits (or $500,000 if you are married) from the sale of your home, as long as it's your primary residence and you've lived there at least two years.

Remember, if you're thinking of buying a home, you may want to make a tax review part of your preparation. Because the tax deductions on mortgage interest and points can be so substantial in the early years of home ownership, they may factor in to how much you can afford.

Overlooked business metrics to keep your eye on

Revenue, gross margin, net profit — these are the basic metrics every small business owner watches closely. But there are also some often-overlooked metrics that can deepen your insight into your business and inform your decision-making. Here are a few:

Customer acquisition cost
Divide the total amount of money you've spent on marketing over a set period by the number of new customers you've gained. The result is your cost per new customer, also known as your customer acquisition cost. To get an even better read, divide your marketing costs into two buckets; one you spend on current customers and one for money spent to acquire new ones. Now your calculation of customer acquisition costs is even more accurate. Compare this figure against prior years to see if you are becoming more efficient.

To go a step further, look at how much each new customer spends on average compared with how much it cost to acquire them. Knowing your rate of return for each new customer can help you revise your marketing strategy.

Lead-to-client conversion rate

For many businesses, generating leads is an integral part of the selling process. If this is true for your business, clearly define each step of the sales funnel from lead to purchase. You can judge how successful your sales efforts are over time by calculating how many qualified leads are converted to sales. Remember to use these measures to refine and improve your selling process. Even a tried-and-true conversion process can get tired, but if you are not measuring it you may not know until it is too late.

Website traffic

Use tools such as Google Analytics to find out who is visiting your website, from where, and what they spend the most time on while they're there. You can learn a lot about your potential customers and your market by keeping notes on how your website traffic changes over time and how it reacts to new content.

Seasonality

Understanding and keeping track of the seasonal trends in your business is crucial to managing cash flow and making the most of both busy and slow periods. Examining year-to-date metrics for sales and web traffic can help you prepare inventory and staffing for the busy season. It will also help you time the scheduling of technical upgrades and equipment repairs for expected down periods.

Cash burn rate

Keeping a close watch on your cash flow statement as well as your income and balance sheet is the key to keeping your business afloat. Not managing cash flow well is one of the most common reasons for new small businesses to fail. Simply subtract how much cash you have at the start of the month from what you have at the end of the month. You can then divide your reserves by your cash burn rate to see how many months you can sustain that rate.

The key to this measurement is maintaining a forward-looking financial forecast for the next 12 months. This will help you take timely actions to avoid a cash crunch, such as cutting costs, improving sales or collecting accounts receivable.

The new small business family medical leave credit

There's a new business tax credit that partially reimburses employers for providing paid family and medical leave for select employees. But small businesses should be informed before they try to use this new Family and Medical Leave Act (FMLA) tax break.

Basics of the new credit

Employers who provide at least two weeks of paid family and medical leave to employees who earn $72,000 a year or less can claim the FMLA credit to offset some of the cost of that paid leave. Some details:

- The credit ranges between 12.5 percent to 25 percent of the cost of the leave, depending on whether it pays 50 percent salary to a full salary.
- At least 50 percent of salary must be paid during the leave for employers to claim the credit.
- Employees must have worked for at least a year.
- Up to 12 weeks of leave are eligible for the credit.
- The $72,000 salary cap in 2018 will rise with inflation every year.

This credit comes as the result of a law requiring companies with 50 or more employees to provide up to 12 weeks of leave every year. The leave is intended to give employees time to address serious health issues, adapt to new additions to their families from births or adoptions, and to handle family military deployments.

However, small businesses with less than 50 employees aren't covered by the FMLA, though they can voluntarily adopt a leave policy as an employee benefit and claim the new credit.

Considerations for small business owners

If you're a small business owner and you're considering providing a leave benefit and claiming the FMLA credit, there are several items to think about:

- **The credit currently expires after the 2019 tax year.** Congress' intention is to test adoption of the credit and later make it permanent if it's popular with employers.
- **It requires administrative setup.** You'll have to draft a leave policy separate from your policies for regular vacation, personal, medical and sick time off.
- **It may create an employee expectation.** If you haven't provided a paid leave benefit before but assess it's worth it due to the credit, it may be a letdown if the credit expires and you no longer offer the benefit to your employees.

Given the uncertain nature of the life of this new credit, if you plan to offer this benefit to your employees, please be prepared to know what you will do if the credit is not extended past next year.

Is your retirement on track?

Saving for retirement is important, but it's hard to know exactly how much you'll need. The actual amount will be different for everyone, but there is a rough guideline to help you know where you stand.

The relative age metric

The average person should have 10 times their final salary saved by the time they retire at age 67, according to Fidelity, the large U.S. investment fund manager. To see if you are on track, here is how their progress chart breaks down for each age:

Age	Salary
30	1x
35	2x
40	3x
45	4x
50	6x
55	7x
60	8x
67	10x

How to use: *Find the age group closest to your current age. Multiply your current salary times the factor. Per Fidelity, your retirement savings are on track if they are at or above the resulting calculation.*

But don't worry too much if you've saved less. Fidelity says its calculation is based on several assumptions:

- Maintaining pre-retirement lifestyle and spending habits
- Investing an average of 50 percent in equities over a lifetime
- Fully retiring at age 67 and living through age 92

The current reality is less than ideal for most

The average working family has $95,776 saved, while those near retirement (aged 56 to 61) have just $163,577 saved, according to the Economic Policy Institute.

Because the average household income is $56,516, it's safe to estimate from this data that most people nearing retirement have around three times or less of their income saved. This is far less than Fidelity's ideal of eight to 10 times income.

Steps to take

Don't panic if you don't measure up to the ideal. Here are some things to do to help prepare for a sound retirement:

- **Plan for lower retirement savings needs.** You may not need as much as you think. Consider lowering your spending needs as you plan for retirement. Pay off your mortgage, keep your credit card balances at zero, and consider changing your current spending habits to save more.
- **Consider your investment alternatives.** You may have a number of years prior to retirement. This extra investment time allows for more diverse planning, including taking a more aggressive long-term approach to your portfolio activities. Now might be a good time to speak with experts on your retirement investment alternatives.
- **You may work longer.** Many people are delaying retirement or choosing part-time work well into retirement age. Many retirees report feeling a greater sense of satisfaction if they continue to do useful work in their golden years, and the extra income helps stretch out the life of their retirement savings.

The bottom line is that the more you can save for retirement to come close to the ideal of 10 times your income, the better. But don't let this standard discourage you if you fall short. There are things you can do to make the most of what you can save, including smart use of tax-advantaged retirement accounts. Call us if you'd like to learn more.

5 finance tips everyone wishes they had followed

Sadly, it usually takes hard-won experience and costly mistakes to really internalize good financial advice. Here are some of the top five things we all wish we knew and followed earlier in life:

Pay yourself first
Paying yourself first means taking a percentage of everything you earn and saving it. Consider it as important as any other bill you pay each month. This is a fundamental rule of personal finance that when used properly can help build an emergency fund and save you from living paycheck to paycheck.

Calculate compound interest and the Rule of 72
You can roughly calculate the number of years compound interest will take to double your money using the Rule of 72. Simply divide 72 by the rate of return to rough out how long it takes to double your money. For example, 10 percent compound interest will double a sum in 7.2 years; 8 percent in nine years. It's a powerful thing!

Avoid debt versus paying off debt
Unpaid debt is like compound interest, but in reverse. If left unaddressed, it grows exponentially over time as interest and fees add to the original balance due. The result is that you have to work harder and earn more to pay for the items you purchased.

Why not save first, then purchase your dream item? When done this way, the purchase price is limited to what you paid for the item, rather than adding the burden of debt over time.

Understanding the truth of amortization
When a bank loans you money, it gives you a certain interest rate and a set number of years to pay it back. Each payment you make contains interest as well as a reduction of the amount owed, called principal. Most of the interest payments are front-loaded, while the last few payments are virtually all

principal. A smart consumer knows this and tries to make additional interest payments at the beginning of the term. This will dramatically reduce the number of payments required to pay back the loan.

Take advantage of tax deductions, credits and capital gains

Tax laws are complicated and made even more complex when the rules change. There are many tax deductions and credits to take advantage of, as well as strategies to minimize capital gains tax. Why leave money on the table just because you don't know the rules? Ask for help and ask for it early in the year. Getting the right tax plan in place every year, is definitely something everyone wishes they knew.