CIRIMELLI, PYLE & ASSOCIATES LLP
CERTIFIED PUBLIC ACCOUNTANTS

Online Advisor – March 2018

Major Tax Deadlines For March 2018

For March 2018

March 1 – Farmers and fishermen who did not make 2017 estimated tax payments must file 2017 tax returns and pay taxes in full.

March 2 – Automatic extension deadline for employers and health care providers to provide Forms 1095-B and 1095-C to individuals.

March 15 –

- 2017 calendar-year S corporation income tax returns are due.
- 2017 partnership returns are due.
- Deadline for calendar-year corporations to elect S corporation status for 2018.

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.

Alert: Expired home and education tax breaks revived

Congress passed a federal budget bill in early February that revived dozens of expired tax breaks for the 2017 tax year. They include a deduction for education expenses as well as several tax breaks for homeowners.

If you have not yet filed your 2017 tax return, please be aware these late changes are retroactive to the beginning of 2017. Check out this list of the most useful tax breaks to see if they apply to your situation:

- **Tuition and fees deduction.** If you paid qualified tuition and related higher education expenses, you may be able to deduct as much as $4,000 of those costs. This can be done on a regular return (without itemizing). The deduction is capped at $4,000 for single filers with adjusted gross income (AGI) of $65,000 or less ($130,000 joint) and at $2,000 for single filers with AGI of $80,000 or less ($160,000 joint).
- **Mortgage insurance deduction.** If you paid mortgage insurance premiums, you can now once again deduct those amounts as an itemized deduction. This deduction begins to phase out for taxpayers with AGI of $100,000 or more.
- **Mortgage debt forgiveness exclusion.** If qualifying mortgage debt on your primary residence was discharged or forgiven, you can exclude that amount from your income.
- **Energy-efficient home improvement credit.** Energy-efficient home improvements (such as upgrades to windows, or heating and cooling systems), may be eligible for a tax credit equal to 10 percent of the amount paid, up to $500.

If you think any of these apply to you, bring all the related documentation to your tax filing appointment. If you have already filed, you may need to file an amended tax return to capture these very late law changes.

Answers to commonly asked tax questions

With all of the headlines about the changes to tax law, you probably have lots of questions. Here are answers to some of the most common questions taxpayers have this year.

Q. I'm hearing about a lot of changes to 2018 taxes. What should I do?
A. You're right, there are a lot of changes in 2018 due to the passage of the Tax Cuts and Jobs Act

(TCJA), including changes to the income tax brackets. The simple answer to the question "What should I do?" is to not make any major changes until you finish filing your 2017 taxes. Once you understand your 2017 tax obligation, you are in a better position to plan for 2018.

However, there are a few things you *can* start thinking about now. Depending on where you fall in the new income tax brackets, you may want to consider ways to lower your taxable income. This could include increasing your contributions to 401(k) retirement accounts or health savings accounts (HSAs). You'll also want to make sure your employer has adjusted your federal tax withholding so that you don't have to wait to receive a large refund (or tax bill) next year. You can review the IRS withholding calculator using your latest pay stub data to make sure the changes are accurate.

Q. What is the penalty amount if I didn't have health insurance in 2017?
A. The penalty per adult is calculated as the greater of either $695 or 2.5 percent of your yearly household income, up to a maximum of $3,264 for individuals or $16,320 for a family of five or more. Note that the penalty *is* still in place for tax years 2017 and 2018. The TCJA eliminates the penalty for 2019 through 2025.

Q. Is Social Security taxed?
A. It depends. You won't pay tax on more than 85 percent of your Social Security income, but how much gets taxed depends on your income bracket. If your combined income is less than $25,000 for the year, you won't pay tax on Social Security income.

Q. When is the last day to do my taxes?
A. Technically, Tuesday, April 17. But don't wait until the last minute. Ask for help to get started now, or to file an extension so you have time to complete your tax return later. The sooner you file, the sooner you can get your refund. It usually takes about three weeks to arrive from the date you file. Also, remember you need to keep most tax-related documents for at least three years, so don't toss your paperwork after you file.

Q. The IRS contacted me, what should I do?
A. Ask for help. There are numerous scammers who impersonate the IRS during tax season. The real IRS will never contact you via social media, email or text message. In addition, an IRS agent will not contact you over the phone unless you first receive official correspondence in the mail. If you have received a notice in the mail, immediately ask for help to determine how to proceed.

These are just a few of the questions people have during tax season. If you have more, don't forget to bring them to your 2017 filing appointment

New tax legislation requires planning

Though many taxpayers appreciate the income tax cuts in the Tax Cuts and Jobs Act (TCJA) passed late last year, others are skeptical that it will simplify their tax planning. With every simplification, there are many more tax issues that still require planning to realize extra tax benefits. Here are seven of them:

1. **Planning for all the moving parts**
   In many ways, the TCJA gives with one hand and takes away with the other. The "giving hand" provides a lower income tax rate structure and a higher standard deduction, while the "taking hand" gets rid of personal exemptions, suspends many itemized deductions and limits deductions that remain. There are many variables that determine whether you come out ahead or behind and a tax planning session can help you figure it all out.

2. **Getting creative and flexible about itemizing**
   Many itemized deductions remain the same, others were eliminated completely and some have new limits. For example, while charitable contributions are still a qualified deduction, there is now a $10,000 combined cap on state, local and property tax deductions. The new constraints mean considering creative solutions to maximize these deductions. One idea is to make better use of the donation of appreciated stock as part of your charitable giving.

3. **Dealing with new complexity in small business ownership**
   Small business owners and sole proprietors will have to do a complicated calculation to see how much of the 20 percent reduction to pass-through qualified business income they can take. It depends on your profession and your expenditures on capital and wages. This calculation can get complicated very quickly.

4. **Understanding the newly changed "marriage penalty"**
   The disadvantage for married couples within the tax code is still very much in place, but it is changing. For instance, the marriage penalty that had given unfavorable income tax rates to married joint filers when compared to single individuals goes away in the TCJA for most income levels. But it rears its head again in the $10,000 combined state, local and property tax limitation, which does not double for married joint filers. This is something you'll have to plan around.

5. **Getting credit for your kids**
   There are many new tax benefits for parents in the TCJA. The child tax credit doubles to $2,000 and the phaseout threshold jumps to $400,000 from $110,000 previously for joint filers, making it available to more taxpayers. Dependents ineligible for the child tax credit can qualify for a

new $500 per-person family tax credit. On top of that, distributions from 529 education savings plans can now be used to pay private school tuition for K-12 students.

6. **Adjusting to disappearing tax breaks**
   You'll have to change your tax plan if it was built on any of the following expiring tax provisions: personal exemptions, miscellaneous itemized deductions, home equity interest, alimony deductions (expiring in 2019), the additional child tax credit, theft and casualty losses, and the domestic production activity deduction (DPAD).

7. **Facing the old complexities**
   Many areas of the tax code remain largely the same and contain both potential pitfalls and opportunities to find tax savings: Managing capital gains and tax-loss harvesting; charitable activity deductions; and a tax-advantaged retirement strategy are just a few areas where you can unlock extra value with smart planning**.**

The big changes to tax reform this year may be disconcerting at first, but in change there is opportunity. After the dust settles on the 2017 tax season, get ready to take a detailed look at what 2018 tax reform means for you.

Tax checklist for business startups

Starting your own business can be equal parts thrilling and intimidating. Complying with regulations and tax requirements definitely falls into the later category. But, with some professional help, it doesn't have to be that way. You can get started with this checklist of things you'll need to consider.

- **Are you a hobby or a business?** This may seem basic to some people, but the first thing you'll have to consider when starting out is whether you really are operating a business, or pursuing a hobby. A hobby can look like a business, but essentially it's something you do for its own sake that may or may not turn a profit. A true business is generally run for the purpose of making money and has a reasonable expectation of turning a profit. The benefit of operating as a business is that you have more tax tools available to you, such as being able to deduct your losses.

- **Pick your business structure.** If you operate as a business, you'll have to choose whether it will be taxed as a sole proprietorship, partnership, S corporation or C corporation. All entities except C corporations "pass through" their business income onto your personal tax return. The decision gets more complicated if you legally organize your business as a limited liability corporation (LLC). In this case you will need to choose your tax status as either a partnership or an S corporation. Each tax structure has its benefits and downsides – it's best to discuss what is best for you.

- **Apply for tax identification numbers.** In most cases, your business will have to apply for an employer identification number (EIN) from both the federal and state governments.

- **Select an accounting method.** You'll have to choose whether to use an accrual or cash accounting method. Generally speaking, the accrual method means your business revenue and expenses are recorded when they are billed. In the cash method, revenue and expenses are instead recorded when you are paid. There are federal rules regarding which option you may use. You will also have to choose whether to operate on a calendar year or fiscal year.

- **Create a plan to track financials.** Operating a business successfully requires continuous monitoring of your financial condition. This includes forecasting your financials and tracking actual performance against your projections. Too many businesses fail in the first couple of years because they fail to understand the importance of cash flow for startup operations. Don't let this be you.

- **Prepare for your tax requirements.** Business owners will generally have to make quarterly estimated tax payments to the IRS. If you have employees, you'll have to pay your share of their Social Security and Medicare taxes. You also have the obligation to withhold your employees' share of taxes, Social Security and Medicare from their wages. Your personal income tax return can also get more complicated if you operate as one of the "pass-through" business structures.

This is just a short list of some of the things you should be ready to discuss as you start your business. Knowing your way around these rules can make the difference between success and failure, but don't be intimidated. Help is available so don't hesitate to call if you have any questions.

Staying organized at tax time

Organizing your tax records not only makes filing your tax return easier, it also helps you find the financial documents you need through the year. Whether you've already filed your tax return or are about to, here are some tips to get organized.

Go with the flow (of your tax return)

Try organizing your records in the same order as they are required to fill out your 1040 individual tax return, using these categories:

1. **Income.** Copies of W-2s, 1099s, Social Security statements, interest income and investment income.

2. **Charitable donations.** Charitable donation receipts, separated by cash and noncash contributions. Include a copy of your charitable activity mileage log, if you have one.

3. **Medical and dental.** All documents related to medical expenses. You may also include a note calculating your medical deduction threshold (which is 7.5 percent of your adjusted gross income during 2017 and 2018).

4. **Other itemized deductions.** All proof of other itemized deductions, including state and local tax statements, mortgage interest, casualty and theft losses, unreimbursed business expenses and other miscellaneous itemized deductions. Note that miscellaneous itemized deductions are eliminated after the 2017 tax year, but keep any records for this tax season on file.

5. **Business and hobby activity.** Keep separate records for each hobby and business activity. Include records of related investments, expenses and mileage logs.

6. **Education.** Records of all education expenses, including invoices, tuition, materials (including for things such as books or music instruments) and fees.

7. **Investments.** Records of investments in tax-advantaged retirement accounts, as well as contributions to investable accounts such as health savings accounts (HSAs) and 529 education savings plans. Also include records of capital gains and losses, particularly for tax-loss harvesting purposes.

8. **Odds and ends.** Put all the miscellaneous receipts that don't fit anywhere else into this file. Depending on your situation, you may be able to get tax breaks for a variety of expenses.

Bonus tips:

- **How long should you keep your records?** For tax filings, the IRS requires you to keep your records on hand for at least three years after you file. Some states require you to keep records longer than that, and the federal government can ask you to keep records for six years if you understate your income.

- **Keep track by going digital.** If keeping track of your tax records year after year sounds like a chore, at least things are easier in the digital age. You can scan your paper records and keep them digitally, but remember to keep your records backed up and secure from identity theft.

- **Make a checklist.** If you're still waiting for some tax forms to arrive, go back to last year's return and make a checklist of all the forms you received. Add items for any new accounts or vendors you added since then, and check off the forms as they arrive.

3 reasons to consider a living trust

Everyone should have legal instructions to leave behind in the event of their death. For most people that means having a will, but some people should consider having a living trust. A will is a piece of paper that tells a court what to do with your assets, while a living trust is a legal entity that controls your assets after you die.

Here are three reasons why it may be helpful to have a living trust:

1. **When you want to avoid probate court.**
   Living trusts avoid probate, which is a judicial process that many assets included in wills must go through.

   There are a lot of good reasons to want to avoid putting your heirs through probate. It's a lengthy legal process that can delay their inheritance for several months or longer. It can be expensive and your state may charge fees based on a percentage of the assets you leave behind. Probate proceedings also create public records that anyone can view, so you'll sacrifice some privacy. And, if you own property in multiple states, there will be a separate probate process carried out for each state, which can be a hassle.

   Assets in a living trust avoid probate court all together. When you pass away, control of the trust transfers to a person you choose, whether a relative or a paid professional trustee. They are tasked with managing the trust's assets according to the instructions you leave behind.

2. **When you have heirs with special needs.**
   A trust can provide ongoing financial management for an heir with special needs who may never be able to manage their affairs themselves. Your heir may also lose eligibility for some forms of government assistance if they are granted their inheritance outright through a will. A living trust could avoid that situation.

3. **When you want to put ongoing conditions on an inheritance.**
   While a will generally just simply distributes assets immediately after your death, a trustee can be given detailed instructions on how to handle the assets over the course of many years. You

could, for example, instruct that an inheritance is doled out in thirds every 10 years. Or, you could make an heir's access to inheritance funds dependent on them avoiding legal trouble or substance abuse.

Be aware of downsides

Creating a living trust is more expensive, likely costing a few thousand dollars rather than the few hundred to create a will. It creates a legal entity that must be managed while you are alive. A trust also only controls assets that have been placed into it, so assets outside the trust after your death won't avoid the probate process. Most importantly, you must have a trustee you can rely on to transfer the trust to. How the instructions you leave behind are handled will be largely up to that person.

A living trust isn't for everyone, but it's something you may want to consider, with the advice of an attorney.

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