



Online Advisor – September 2018

This month:

September 3: Labor Day

September 17:

- 3rd quarter estimated tax due
- Filing deadline for 2017 S corp and partnership returns that received extension

October 1: SIMPLE IRA plan establishment due

With summer coming to a close, now is a good time to assess your tax situation while there is still time to make adjustments if necessary. To help you prepare, this newsletter includes articles on potential 2018 tax surprises and how the new changes affect education related deductions and credits. For your business, there are articles to help you battle employee turnover and tips to prepare for a possible trade war. Finally there are some tips for improving your credit score and a piece on video games and the impact they are having on a major portion of society.

Please call if you would like to discuss how any of this information relates to you. If you know someone who can benefit from this newsletter, feel free to forward it to them.

Is a Tax Surprise Waiting for You?

Often lost in the excitement of large-scale tax change is how they can negatively impact some individual situations. Check out the questions below to see if you might be in for a tax surprise this year.

- **Will you pay more than \$10,000 in state and local taxes?**
Previously, you could take a full deduction for all state income, sales and property taxes as an itemized deduction. That deduction is now capped at \$10,000 per year. Take a look at your 2017 itemized deductions to see if your state and local taxes were greater than the new cap. If so, you will now lose any excess amount over \$10,000 as a deduction.
- **Do you pay for work expenses?**
Before this year, employees were able to deduct work expenses (business mileage, uniforms, continuing education and other non-reimbursed expenses) as an itemized deduction. These deductions are now



gone. If you typically pay for job related expenses, you might be on the hook for more taxes. Employees who deduct business use of their homes may be impacted even more.

- **Do you own a small business?**

There are many business tax changes for 2018. Bonus depreciation and Section 179 expensing are expanded, the domestic production activities deduction (DPAD) is eliminated, and there is a new qualified business income deduction for pass-through entities. It is a near certainty that one or more of these changes will affect your business taxes.

- **Did you adjust your withholding allowances?**

When the tax cuts were finalized, the IRS adjusted the withholding tables as best they could to fit with your current allowances. As a result, your take-home pay likely increased earlier this year. However, based on a recent report by the U.S. Government Accountability Office (GAO), as many as 21 percent of taxpayers will unknowingly under withhold their taxes throughout the year. If you are one of these people, you will have a tax bill and maybe some penalties to pay next April. It would be time well spent to double-check your withholding for 2018.

- **Do you have children?**

Some good news! The Child Tax Credit is now double to \$2,000 per child versus \$1,000 last year. The income limits for the credit are also raised significantly to \$200,000 Adjusted Gross Income (AGI) for single status and \$400,000 AGI for married couples. In many cases, the additional credit will actually offset the loss of the personal exemption that you could take for yourself, your spouse and children in the past.

Now is a great time to do an assessment of your situation in light of the new tax changes.

Education: Tax Changes You Need to Know

As students gear up to head back to school, there are some changes to education deductions that could save or cost you more in taxes and even raise college tuition costs. Here is what you need to know to get up to speed:

What is gone

Continuing Education as an itemized deduction: In previous years, you could deduct expenses paid for job-related continuing education as a miscellaneous itemized deduction. This deduction has been eliminated. However, if your employer will pay for the education, they can cover up to \$5,250 tax-free.

Home equity line of credit (HELOC) interest for education expenses: A popular method of generating cash to pay for school expenses is taking out a HELOC. Beginning in 2018, you can only deduct HELOC interest if you use the loan proceeds to buy, build or substantially improve your home. This means that



if you plan to obtain HELOC for purposes of paying for education expenses, the interest will not be deductible.

What's new

529 plans cover K-12 tuition: Funds from Section 529 savings plans can now be used tax-free to pay for up to \$10,000 in K-12 private school tuition per year. Books, supplies or other K-12 expenses are not included in this change, but they are still eligible as legitimate college expenses. Be careful - not all states have adopted the K-12 inclusion, so they might still be taxable at the state level.

Endowment tax of 1.4 percent on certain private colleges: Congress added an investment income tax on private colleges that have large endowments. The tax is expected to impact roughly 30 schools, including Stanford, Harvard and Notre Dame. The effects of the new tax are yet to be determined. However, tuition may increase or reduced financial aid award amounts may be implemented to offset the cost.

What stays the same

Student loan interest deduction: You may deduct up to \$2,500 in student loan interest in 2018 as an adjustment to income. To qualify, your adjusted gross income must be below \$80,000 (\$165,000 for married couples). Phaseouts start to apply at \$65,000 (\$135,000 for married couples).

American Opportunity Tax Credit and Lifetime Learning Credit: All three of these educational tax benefits are available once again. Here's a chart with basic information on these options:

	American Opportunity Tax Credit (AOPC)	Lifetime Learning Credit (LLC)
Max Amount	\$2,500 credit	\$2,000 credit
Refundable?	Yes - \$1,000	No
Max Years	4	Unlimited
Eligible Education	Undergraduate	Undergraduate & graduate



As a reminder, when you make payments for any education expenses, make sure to keep your receipts and retain any Forms 1098T sent to you from qualifying schools.

The Eye-Opening Video Games Phenomena

Over the course of the last 20 years, video games have morphed from an entertainment choice to a lifestyle. According to a 2018 Nielsen study, a whopping 66 percent of Americans 13 and older identify themselves as gamers. Here's what you need to know:

Major developments

- **A massive 24/7 online community.** Instead of needing friends to be physically present to compete against, gamers play with people from all over the world at all times of the day. By having the community attached to the video game, an online society exists where gamers spend hours and even days immersed in this alternate online reality.
- **Video games as a spectator sport.** These online game communities create a platform to give visibility to the top game players. Gamers now watch other gamers for new playing strategies and for entertainment.

In May, a League of Legends video game event drew a record 127 million online viewers — 23 million more viewers than the 2018 Super Bowl! The National Basketball Association (NBA) and Federation Internationale de Football Association (FIFA) have taken notice and have their own virtual teams (eSports leagues) as companions to their live-action leagues.

- **Gaming as a career.** The top gamers in eSports leagues sign contracts with their teams and have endorsements with outside advertisers. In addition to eSports, skilled gamers can set up accounts on YouTube or Twitch to gain viewers by showing off their abilities. One of the top streamers, who goes by the nickname Ninja, has over 5 million YouTube subscribers and makes more than \$500,000 per month playing and commenting on the game Fortnite. Parents can even hire Fortnite tutors for their kids.

Tips for healthy gaming

With this phenomena sweeping the nation, here are some tips to consider as you ponder your gaming experience and that of your kids:

- **Monitor games and communities for age appropriateness.** Like movie ratings, games have ratings and recommended age ranges. Those are a helpful guide, but do your own research before making a decision. Make sure you are comfortable with what you are seeing and reading.
- **Maintain a healthy balance.** The increase in popularity and ease of access to online games creates the need for a greater awareness of the addictive nature of video games. Like with any form of entertainment, if not properly controlled the effects can be devastating. One of the biggest issues school counselors face today is lower student productivity because of over-indulgence in video games. Set gaming boundaries that will allow you or your kids to keep up with responsibilities.
- **Invest in multiple environments.** If you find that you or your kids are only socializing with online friends, some changes are probably in order. Make sure adequate time and energy is being devoted to developing your family and in-person relationships, as well as a gaming social life.
- **Be realistic about career aspirations.** The enormity of the industry creates many unique career opportunities, but they are not easy to obtain. The supply for these careers far outweighs the demand. This is especially true for professional gamers. Know all your risks and opportunity costs before making any major commitments.

The popularity of video games is only expected to increase as technology continues to advance. If you or your children are active gamers, try to stay up on the latest trends and understand the risks to ensure a healthy gaming experience.

Combat Employee Turnover

With unemployment at historically low rates, retaining employees is harder than ever. Here are some tips to help your business maintain a thriving workforce:

- **Invest in current employees.** One of the key opportunities for business success is continual investment in your current workforce. If you have employees with potential to grow, offer training and continuing education to help them realize that potential. With online courses, this is now easy to do without a major disruption in day-to-day activities. These courses can be as general as teaching supervisory skills or obtaining accreditation in a chosen field. Then when there is a need to be filled, often times it can be filled internally with a committed employee.
- **Convert contractors to employees.** Utilizing contractors is a great strategy to handle overflow work. You can then have current employees manage the consultant's work to develop their supervisory skills. At the same time you can vet contractors to see if they could take an expanded role as a full-time employee. Many contractors prefer to be independent, but that is not always the case. Circumstances change and the security of being an employee might be intriguing.



- **Review compensation and benefits packages.** Conduct an annual review to ensure that your company is offering competitive salaries and benefits. This will help protect your business against current employees seeking greener pastures. Consider giving impromptu pay increases and spot awards to top employees to show your appreciation. Also look at being creative with benefits and vacation packages.
- **Explore the benefits of internships.** An internship program can not only help you identify your next employees, it can help develop your current employees. While it can be seen as a hardship by your current workforce, it can be a rewarding way to cement your employee's knowledge and value to the organization as they are seen as a teacher. Plus you may find your next group of potential hires.
- **Assess your corporate culture.** Employees want to enjoy going to work every day. Consider conducting an anonymous survey of your current employees to see what they like and get ideas for possible improvements.

With some planning and a little creativity, keeping your business running efficiently can be achieved even in times when employee retention can be challenging.

Give your Credit Score a Boost

Your credit score is one of the most important aspects of your financial health. It is used by potential lenders, landlords and even employers to analyze your financial situation in one way or another. Here are some tips that might help you improve your score:

- **Review your credit report and, if necessary, fix errors.** You are entitled to one free credit report from each credit reporting company per year at [Annual Credit Report](#). It is important to check for reporting errors that could be negatively affecting your score. If you find an error, contact the company reporting the information and the credit reporting company to challenge the report. Common errors include closed accounts showing as open, incorrect balances or limits and accounts opened by someone else due to identity fraud.
- **Pay off your credit card each month.** By making purchases on a credit card and paying the entire balance each period, you are developing a positive credit history and displaying sound financial management skills. This will increase your credit score. To meet this goal you will need to keep your spending under control. If you are unable to pay off the card, you will start to accumulate revolving debt that will hurt your credit score.
- **Make your payments on time.** Late payments, even by one day, can be one of the most damaging hits to your score. If possible, set up automatic payments for as many bills as possible



to lower the risk of forgetting to make a payment. The longer your history of paying on time, the more your score will improve.

- **Pay down your debt.** Another large chunk of your credit score is calculated based on the amount of debt outstanding. Mortgage lenders specifically use a debt-to-income ratio to determine loan eligibility. In addition to the amount of debt you have, you also need to pay attention to the debt limits you have on your accounts. The closer your debt is to the limit, the worse your score will be.
- **Don't allow an account to go to collection.** Collections will stay on your credit report for seven years! Avoid having any of your accounts go to collections if at all possible. Medical bills and other one-time expenses are often the types of accounts that find themselves in collections. If you are unable to pay a bill in full by the due date, call the company and see if they have payment plans or other programs to get the bill paid without going to a collection company.

Regardless of where you are on the credit score spectrum, you should actively monitor your credit. Implementing these ideas will improve your credit score as well as your long-term financial well-being.

Hedging Against a Trade War

As a small business owner, the words "trade war" and "tariff" can be unsettling. When cost uncertainty is on the horizon, you will want to be prepared as much as possible. Here are some ideas to help you navigate your business through a possible trade war.

Tariffs defined

A tariff is a tax on imports imposed by a governing authority. The tax can be on specific goods and services, countries of origin, or both. The current tariff conversation appears to be centered around reducing the U.S. trade deficit with China and other trading partners. When a tariff is placed, often times the affected country will impose retaliatory tariffs to protect its own businesses and reset the balance of trade to their favor.

Ideas to prepare your business

- **Identify at-risk areas.** Remember, suppliers impacted by tariffs are sourcing some or all of your purchases from countries outside the U.S. So pay attention to which suppliers AND items are most vulnerable to tariffs. Currently this includes steel, aluminum, and imports from China. But don't overreact; the average tariff on all U.S. imports is still less than 2 percent with over half of the imported items having no tariffs. On the other hand, things like clothing and shoes could be subject to ever-increasing tariffs.



- **Seek out additional suppliers.** Once you have identified possible items that could be vulnerable to tariffs, determine the source of the item with your key suppliers. If the items in question are an important component to your business, research additional suppliers who obtain their merchandise from a non-tariff source. Create new relationships now to increase your chances of minimizing your added expenditures later.
- **Know your breakeven point.** The breakeven point for your business is where your total revenue equals your total costs. Knowing this point is helpful in forecasting breakeven sales and your ability to absorb price increases from key suppliers. This will help you identify if, when and how much you will need to raise prices.
- **Identify areas with potential to cut costs.** Do an assessment of all your costs now and classify them as essential or non-essential. If a tariff is going to impact your margins, you may be able to salvage your overall profitability by cutting some of your non-essential operating costs.
- **Tweak your supply chain timing.** There might be potential to manage your inventory to create a buffer to absorb a tariff, if you think the trade war will be short-lived. Consider creating a working capital account to allow yourself purchase flexibility to make your costs more predictable during your key selling season. You might even be able to negotiate a staggered delivery schedule with your supplier to manage storage concerns.

For now, try to stay current with tariff news. You may be able to hedge some of the risk that comes with a trade war.

As always, should you have any questions or concerns regarding your tax situation please feel free to call.

This publication provides summary information regarding the subject matter at time of publishing. Please call with any questions on how this information may impact your situation. This material may not be published, rewritten or redistributed without permission, except as noted here. This publication includes, or may include, links to third party internet web sites controlled and maintained by others. When accessing these links the user leaves this newsletter. These links are included solely for the convenience of users and their presence does not constitute any endorsement of the Websites linked or referred to nor does CIRIMELLI PYLE & ASSOC., LLP have any control over, or responsibility for, the content of any such Websites. All rights reserved.

