Quarterly Report

Spring 2018

NOLAN | GIERE
CERTIFIED PUBLIC ACCOUNTANTS

Update on the Tax Cuts and Jobs Act (TCJA)

The Tax Cuts and Jobs Act (TCJA) was passed by Congress in a hurry late last year, and the IRS and tax preparers have been working to digest some of the more thorny issues created by the tax overhaul. Here are the latest answers to some of the most common questions:

Is home equity interest still deductible?

The short answer is: Not unless you have used the money to buy, build or substantially improve your home.

Before the TCJA, homeowners were able to take out a home equity loan and spend it on things other than their residence, such as to pay off credit card debt or to finance large consumer purchases. Under the old tax code, they could deduct interest on up to $100,000 of such home equity debt.

The TCJA effectively writes the concept of home equity indebtedness out of the tax code. Now you can only deduct interest on "acquisition indebtedness," meaning a loan secured by a qualified residence that is used to buy, build or substantially improve it. If you have taken out a home equity loan before 2018 and used it for any other purpose, interest on it is no longer deductible.

I am a small business owner. How do I use the new 20 percent qualified business expense deduction?

Short answer: It is complicated and you should get help.

Certain small businesses structured as sole proprietors, S corporations and partnerships can deduct up to 20 percent of their qualified business income. But that percentage can be reduced after your taxable income reaches $157,500 (or $315,000 as a married couple filing jointly).

The amount of the reduction depends partly on the amount of wages paid and property acquired by your business during the year. Another complicating factor is that certain service industries including health, law, consulting, athletics, financial services and accounting are treated slightly differently.

The IRS is expected to issue more clarification on how these rules are applied, such as when your business is a mix of one of those service industries and some other kind of business.

What are the new rules about dependents and caregiving?

There are a few things that have changed regarding dependents and caregiving:

- **Deductions.** Standard deductions are nearly doubled to $12,000 for single filers and $24,000 for married joint filers. The code still says dependents can claim a standard deduction limited to the greater of $1,050 or $350 plus unearned income.
- **Kiddie Tax.** Unearned income of children under age 19 (or 24 for full-time students) above a threshold of $2,100 is now taxed at a special rate for estates and trusts, rather than the parents' top tax rate.
- **Family credit.** If you have dependents who are not children under age 17 (and thus eligible for the Child Tax Credit), you can now claim $500 for each qualified dependent member of your household for whom you provide more than half of their financial support.
- **Medical expenses.** You can now deduct medical expenses higher than 7.5 percent of your adjusted gross income. You can claim this for medical expenses you pay for a relative even if they are not a dependent (i.e., they live outside your household) as long as you provide more than half of their financial support.

Stay tuned for more guidance from the IRS on the new tax laws, and reach out if you would like to set up a tax planning consultation for your 2018 tax year.

Perspective

An Inside View

Tom Giere

Dear Clients and Friends:

Spring has finally arrived. The air is warm and the grass is green. There were times though when it seemed like spring would never get here. On "Tax Day" this year, April 18th, I awoke to the sight of snow on my neighbor's roof. I do not recall seeing this in my prior thirty-two tax filing seasons.

The tax filing season has of course ended. Although challenging for us, the filing season provides an opportunity for us to work closely with many of you. An opportunity that we find interesting and rewarding. Thank you. We also want to thank you for the many referrals that we received and the opportunity to work with the new clients that you sent our way. We are flattered by the confidence and trust that you have in our firm. Again, thank you.

As we move into the spring and summer months we have a number of projects to tackle here at Nolan, Giere. Over the course of the next several weeks we will be implementing the final phase of our conversion to a paperless office. The introduction of workflow technology will remove the need for paper tracking as things move through our office and will make us more efficient and effective as we serve our clients. Additionally, we continue to develop, refine, and implement the policies and procedures related to the cybersecurity plan that we adopted late last year. Safeguarding the data of our clients is our highest priority so cybersecurity is, and will continue to be, a process that garners a great deal of our attention.

And of course, there are numerous tax and accounting changes this year that will affect most if not all of our clients. To that end, we will spend a good bit of time this summer in the class room learning the finer points of the changes and sharpening our skills so we are prepared to help our clients navigate through them. We will reach out to many of you to prepare projections, develop strategies, look for opportunities, and avoid pitfalls related to the changes. If you would like our help working through the new tax and accounting changes or just have questions about them, give us a call.

Thank you again for the opportunity to serve you and please enjoy the spring and summer!

Sincerely,

Tom

Audit rates decline for 6th year in a row

IRS audit rates declined last year for the sixth year in a row and are at their lowest level since 2002, the agency reported. That is good news for people who do not like to be audited (which is everybody)!

- **Low statistics** for audit examinations obscure the reality that you may still have to deal with issues caught by the IRS's automated computer systems. These could be math errors, typos or missing forms. While not as daunting as a full audit, you need to keep your records handy to address any problems.
- **Average rates** are declining, but audit chances are still high on both ends of the income range: no-income and high-income taxpayers.
- **No-income taxpayers** are targets for audits because the IRS is cracking down on fraud in refundable credits designed to help those with low income, such as the Earned Income Tax Credit (EITC). The EITC can refund back more than a low-income taxpayer paid in, so scammers attempt to collect these refund credits through fraudulent returns.
- **High-income taxpayers** have increasingly been a target for IRS audits. Not only do wealthy taxpayers tend to have more complicated tax returns, but the vast majority of federal income tax revenue comes from wealthy taxpayers. Based on the statistics, the very highest income taxpayers can assume they will be audited about every six years.
- **Complicated returns** are more likely to be audited. Returns with large charitable deductions, withdrawals from retirement accounts or education savings plans, and small business expenses and deductions are reportedly more likely to be the subject of an audit.

The benefits of hiring your child for the summer

Hiring your children to work in your business can be a win-win situation for everyone. Your kids will earn money, gain real-life experience in the workplace, and learn what you do every day. You may reap a few tax benefits in the process. The following guidelines will help you determine if the arrangement will work in your situation.

- Make sure your child works a real job that he or she can reasonably handle, no matter how basic or simple. Consider tasks like office filing, packing orders, or customer service.
- Treat your child like any other employee. Expect regular hours and appropriate behavior. If you are lenient with your child, you risk upsetting other employees.
- To avoid questions from the IRS, make sure the pay is reasonable for the duties performed. It's not a bad idea to prepare a written job description for your files. Include a W-2 at year-end.
- Record hours worked just as you would for any employee. If possible, pay your child using the normal payroll system and procedures your other employees use.
- Hiring your children works best if you are a sole proprietor. It has additional tax benefits not available if your business is organized as a C corporation or an S corporation.

If you have questions, give us a call. Together we can determine if hiring your child is the right course of action for your business and your family.

Business Solutions

Stay prepared to sell your business

If you enjoy running your own business, selling it may be the furthest thing from your mind. But the reality is that eventually an opportunity to sell will come, whether due to your own life changes or a perfect buyer walking in the door. Planning, often years in advance of the sale date, is necessary to get the most value for the love, sweat and tears you've invested. Here are some tips to stay prepared:

- **Assemble a great team.** Selling a business is a complex process, especially as you grow larger. You are likely to need three kinds of professionals to help: an accountant, to help review and produce clean and easy-to-understand financial statements; a lawyer, to create the necessary legal documents and help you negotiate terms; and a trusted business broker, to evaluate the worth of your business and find buyers.
- **Develop your exit strategy.** With the help of your advisory team, create a clear picture of what selling your business might look like. Outline the risks and opportunities that could affect the valuation of your business. Planning out an ideal scenario as well as a plan B will help you avoid getting backed into a corner and selling at a discount.
- **Clean up your financials.** As you get closer to selling, go over your business financial statements as well as your tax returns from the last three years. A broker will like to present a clear and compelling financial picture to a client, and that will include a year-to-date financial report.
- **Have a plan to improve sales.** The worst time to sell is when sales are declining, even if it's just a temporary or seasonal dip. Part of your planning should include some tactics to boost your sales and cash flow, such as increasing marketing and promotion, liquidating bloated inventories or collecting on accounts receivables.
- **Be prepared to evaluate buyers.** Be prepared to take a calm approach to any offers you get. You don't want to jump at the first offer, and many offers that seem too good to be true often are. Lack of solid financing is often an issue, so work with your business broker to find buyers who have been prequalified by a lender.
- **Have your after-sale plan down.** Often a buyer will want to include a clause that the previous owner stay on awhile as an advisor. Make sure that the advisory period lined out in the contract isn't longer than is comfortable for you. Finally, work with your accountant on a tax-efficient plan for the proceeds of your sale.

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 latter category. But, with some professional help, it does not 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 is 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 is 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 will 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 generally will have to make quarterly estimated tax payments to the IRS. If you have employees, you will 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 do not be intimidated. Help is available so do not hesitate to call if you have any questions.

How to handle a gap in health care coverage

Health care coverage gaps happen. Whether because of job loss or an extended sabbatical between gigs, you may find yourself without health care for a period. Here are some tax consequences you should know about, as well as tips to fix a coverage gap.

Coverage gap tax issues

You will have to pay a penalty in 2018 if you do not have health care coverage for three consecutive months or more. Last year the annual penalty was equal to 2.5 percent of your household income, or $695 per adult (and $347.50 per child), whichever was higher. The 2018 amounts will be slightly higher to adjust for inflation.

Example: Susan lost her job-based health insurance on Dec. 31, 2016, and applied for a plan through her state's insurance marketplace program on Feb. 15, 2017, which went into effect on March 1, 2017. Because she was without coverage for three months, she owes a fourth of the penalty on her 2017 tax return (three of 12 months uncovered, or 1/4 of the year).

While the penalty is still in place for tax years 2018 and earlier, it is eliminated starting in the 2019 tax year by the Tax Cuts and Jobs Act.

Three ways to handle a gap

There are three main ways to handle a gap in health care coverage:

1. **COBRA.** If you are in a coverage gap because you have left a job, you may be able to keep your previous employer's health care coverage for up to 18 months through the federal COBRA program. One downside to this is that you will have to pay the full premium yourself (it is typically split between you and your employer while you are employed), plus a potential administrative fee.

2. **Marketplace.** You can enroll in an insurance marketplace health care plan through Healthcare.gov or your state's portal. Typically you can only sign up for or change a Marketplace plan once a year, but you can qualify for a 60-day special enrollment period after you've had a major life event, such as losing a job, moving to a new home or getting married.

3. **Applying for an exemption.** If you are without health care coverage for an extended period, you may still avoid paying the penalty by qualifying for an exemption. Valid exemptions include unaffordability (you must prove the cheapest health insurance plan costs more than 8.16 percent of your household income), income below the tax filing threshold (which was $10,400 for single filers below age 65 in 2017), ability to demonstrate certain financial hardships, or membership in certain tribal groups or religious associations.

Firm Highlights

During tax season we took a Saturday afternoon break to express our creative sides!

Our summer office hours will be from 8:00 AM - 5:00 PM Monday through Thursday May - August. We will resume Friday office hours in September.

NOLAN GIERE
CERTIFIED PUBLIC ACCOUNTANTS
206 W. Main Street Troy, OH 45373
Phone 937-339-3118