Quarterly Report

Winter 2018

NOLAN | GIERE
CERTIFIED PUBLIC ACCOUNTANTS

Looking ahead: Tax reform in 2018

Congress has passed tax reform that will take effect in 2018, ushering in some of the most significant tax changes in three decades. Here are some major items in the new bill that impact individual taxpayers.

•**Reduces income tax brackets.** The bill retains seven brackets, but at reduced rates, with the highest tax bracket dropping to 37 percent from 39.6 percent.

•**Double standard deductions.** The standard deduction nearly doubles to $12,000 for single filers and $24,000 for married filing jointly. To help cover the cost, personal exemptions and most additional standard deductions are suspended.

•**Limits itemized deductions.** Many itemized deductions are no longer available, or are now limited. Here are some of the major examples:

∗**Caps state and local tax deductions.** State and local tax deductions are limited to $10,000 total for all property, income and sales taxes.

∗**Caps mortgage interest deductions.** For new acquisition indebtedness, mortgage interest will be deductible on indebtedness of no more than $750,000. Existing mortgages are unaffected by the new cap as the new limits go into place for acquisition indebtedness after Dec. 14, 2017. The act also suspends the deductibility of interest on home equity debt.

∗**Limit on theft and casualty losses.** Now only available for federally declared disaster areas.

∗**No more 2 percent miscellaneous deductions.** Most miscellaneous deductions subject to the 2 percent of adjusted gross income threshold are now gone.

•**Cuts some above-the-line deductions.** Moving expense deductions get eliminated except for active-duty military personnel, along with alimony deductions beginning in 2019.

•**Weakens the alternative minimum tax (AMT).** The bill retains the alternative minimum tax but changes the exemption to $109,400 for joint filers and the phaseout threshold to $1 million. The changes mean the AMT will affect far fewer people than before.

•**Bumps up child tax credit, adds family tax credit.** The child tax credit increases to $2,000 from $1,000, with $1,400 of it being refundable even if no tax is owed. The phaseout threshold increases sharply to $400,000 from $110,000 for joint filers, making it available to more taxpayers. Also, dependents ineligible for the child tax credit can qualify for a new $500-per-person family tax credit.

•**Expands use of 529 education savings plans.** Qualified distributions from 529 education savings plans, which are not subject to tax, now include tuition payments for students in K-12 private schools.

•**Doubles estate tax exemption.** Estate taxes will apply to fewer people, with the exemption doubled to $11.2 million ($22.4 million for a married couple).

•**Reduces pass-through business taxes.** Most owners of pass-through entities such as S corporations, partnerships and sole proprietorships will see their income tax lowered with a new 20 percent income reduction calculation.

Perspective

An Inside View

Dear Clients and Friends:

Here we are again. Another midwestern winter is upon us. Frigid temperatures, ice and snow, weather delays and cancellations. All part of an annual ritual that is part of life here in the Buckeye state. But don't despair, spring is a mere five weeks away!

Tom Giere

Another part of life, for most of us, is the filing of our annual tax returns. That season is upon us as well. Here at Nolan Giere & Company we are already in the throes of the tax filing season with lots of activity here in the office. Over the course of the next several weeks, we will be meeting with many of you to help work through your individual tax filing situations. Thank you for that opportunity.

As we have stated in the past, as we work through this filing season, our focus will remain on you, our clients. We will always put you and your needs first. We will do our best to fully understand your unique situation so we can do the very best job for you. We are not too busy to answer questions; we know that the more informed you are the better we can serve you.

This year we anticipate that many of you will have even more questions as we work through the impact of the federal tax reform legislation passed into law late last year. This newsletter contains several articles about the changes, most of which are now in effect. Please review them and contact us to discuss how the changes will affect your personal tax situation and what strategies you might consider implementing to take full advantage of the new laws.

Speaking of changes, I recently ran across an individual federal income tax booklet for tax year 1953. Page 12 of that booklet contains the tax rate schedules for that year. For tax year 1953, the minimum tax rate (for incomes not over $2,000) was 22.2%. The maximum tax rate for tax year 1953 (for incomes above $200,000) was *92%*! Things have changed.

Enjoy the rest of the winter. Spring is coming!

Sincerely,

Tom

Get ready to save more in 2018

You can save more for retirement next year using tax-advantaged accounts, thanks to a boost in the maximum 401(k) contribution rate by the IRS. The maximum rate increases by $500 to $18,500, which is the first increase in three years. Those aged 50 or older can still contribute an additional $6,000 on top of that amount.

This is good news, because a 401(k) is one of most potent tools in your retirement arsenal. It offers many benefits over other forms of saving, including:

- **Tax-deferred growth.** Pre-tax income of $18,500 invested over 30 years with 6 percent annual cumulative interest will grow to $111,901.92. That is compared with $67,588.76 of the same amount of income invested after being taxed at the highest rate. While you will owe tax on 401(k) withdrawals after retirement, you may be able to manage your 401(k) withdrawals to fall into a lower income bracket.

- **Roth option.** You may opt to make your contributions to a 401(k) as a Roth investment, meaning you invest post-tax income, but you can withdraw from your Roth tax-free during retirement. A mix of traditional and Roth accounts will give you flexibility to manage your income tax rate during retirement.

- **Company match.** Many companies offer to match the first few percentage points of their employees contributions to a 401(k). Even if you can't max out your contribution, you should try to invest up to your company's match limit. Otherwise, you are just leaving money on the table.

While 401(k)s have great utility, they come with a few downsides. Any withdrawals made before age 59 1/2 are assessed a 10 percent penalty fee, in addition to being taxed as regular income during the year they are withdrawn. Any investments in 401(k)s also are limited to a few choices set by your employer's retirement plan, so a limited number of conventional investment options in mutual funds is one of the trade-offs of using a 401(k).

Mileage rates for 2018

The IRS recently announced mileage rates to be used for travel in 2018. The standard business mileage rate increased by 1 cent to 54.5 cents per mile. The medical and moving mileage rates also increased by 1 cent, to 18 cents per mile. Charitable mileage rates remained unchanged at 14 cents per mile.

Remember to properly document your mileage to receive full credit for your miles driven.

Business Solutions

New 2018 capital expense rules

There are many provisions in the tax reform bill passed in late 2017 designed to benefit small business owners. There are also a variety of new tax tools affecting how small businesses account for deducting the cost of capital purchases under the new tax law. Here is what you need to know:

Tool #1: Section 179 deduction

The new law increases the amount of business property purchases that you can expense each year under Section 179 to $1 million (from $500,000 previously). Normally, spending on business property (machines, computers, vehicles, software, office equipment, etc.) is capitalized and depreciated so that the tax benefit is spread out slowly over several years. Section 179 allows you to get the tax break immediately in the year the property is placed into service.

Tips:

- *There is an eligibility phaseout for Section 179 that ensures it is only used by small businesses, but that was also raised to $2.5 million (from $2 million) by the new law. If you spend more than $2.5 million on business property in total during the year, your ability to use the $1 million Section 179 deduction is reduced dollar-for-dollar above that amount.*
- *Section 179 deductions can be used on both new and used equipment.*
- *You can now use Section 179 on property used to furnish lodging or in connection with furnishing lodging (ex. rental real estate). It also includes improvements to nonresidential real estate assets such as roofs, heating and air conditioning, and alarm systems.*

Tool #2: Bonus depreciation

Bonus depreciation limits (also known as first-year bonus depreciation) are also improved under the new law, but for a limited time. Bonus depreciation is similar to Section 179 and allows you to immediately expense capital purchases rather than depreciating them over several years.

Under the new law, first-year bonus depreciation increases to 100 percent of the qualified asset purchase price for the next five tax years (starting in 2018) and can now be applied to the expense of purchasing used property as well as new.

Tips:

- *Bonus depreciation is typically used on short-lived capital investments (with a 20-year or less useful life) such as machinery, equipment and software.*
- *Bonus depreciation was for purchases of new equipment, but now can be applied to used equipment as long as it is placed into service at your business during the tax year.*
- *The allowable bonus depreciation starts to decline after 2022. It falls to 80 percent in 2023, 60 percent in 2024, 40 percent in 2025 and 20 percent in 2026.*

Remember, though tax reform gives you expanded tools to accelerate depreciation, it may not benefit you to use them in every case. Sometimes it is better to use the standard capitalization and depreciation tax treatment. These tax benefits do not change the amount a capital purchase can be expensed – only the timing. Calculating whether your business will benefit from these revamped expensing tools can get complicated, so give us a call if you need assistance.

Tips for when your employees are family members

Working with family can be a pleasure. It can also be a pain, especially if you have to terminate a family member's employment. Here are tips to help you ease the strain of mixing your family and employee relationships.

Hire for the right reasons. Make your hiring and firing decisions based on the skill sets needed to keep your business operating effectively. Hiring your son because he is struggling to find a job is *not* a good business reason for bringing staff on board.

Set clear expectations. Be sure to communicate the job's performance requirements to your family member right from the start. Clearly define company policies for promotion, compensation and termination. Make it plain that unethical conduct will not be tolerated.

Avoid nepotism. Nepotism is a habit we as humans have of treating family members more favorably than others. Keep in mind that your non-family employees will be hypersensitive to any favoritism you show to relatives.

Document performance. Be sure to maintain a detailed personnel file that tracks behavior resulting in any disciplinary action during your family member's tenure. In the unfortunate case it is necessary to fire a family member, a well-documented file will provide a narrative record that lays out your reasons and will communicate the evidence leading to your decision.

If you have to fire, keep it professional. Set a formal termination meeting. You may want to involve a direct supervisor or a human resources professional to ensure that your company is appropriately represented and to prevent the conversation from lapsing into emotional arguments.

The bottom line: Adhere to formal business standards and communicate in a professional, businesslike manner with your related employees.

Taxes and virtual currencies: What you need to know

Virtual currencies are all the rage lately. Here are some tax consequences you must know if you decide to dip your toe into that world.

The IRS is paying close attention

The first thing to know is that the IRS is scrutinizing virtual currency transactions, so if you live in the U.S. you will have to report your transactions in Bitcoins and the like to the IRS. Despite some early misconceptions, virtual currency transactions can be traced back to their owners by governments and other cyber sleuths.

If you decide to use or hold virtual currencies, carefully report and pay tax on your transactions. Act as if you are going to be audited, because if you do not, you just might be!

It is property, not money

Note that the IRS does not consider Bitcoin or other virtual currencies as money, because they are not legal tender. Instead, they are considered property. That means that if you are paid in Bitcoin, you will have to report it as income based on its fair market value on the date you received it.

And, if you sell Bitcoin, you have to pay tax on your gain using the cost (basis) of when you received it. The IRS has said that if Bitcoin is held as a capital asset, like a stock or a bond, then you would pay capital gains tax. Otherwise, if it is not held as a capital asset (for example if it is treated as inventory that you intend to sell to customers), it would be taxed as ordinary income.

Be aware of the risk

In addition to the increased oversight by the IRS, virtual currencies are at risk of virtual theft with no recourse to a government agency like the Federal Deposit Insurance Corporation, which insures U.S. bank balances. Do your research on storage and security before you invest. And if you need help with any tax questions related to virtual currency, do not hesitate to call.

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Firm Highlights

Michelle Ireton was selected Tipp City Chamber of Commerce Young Professional of 2017.

The Nolan Giere team including spouses enjoyed a great holiday celebration dinner at Smith's Boathouse.