



BENDER, CICCOTI & CO.

Certified Public Accountants, LLP



CLIENT UPDATE

W I N T E R 2 0 1 8

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Is a tax surprise waiting for you?

Often lost in the excitement of large-scale tax changes 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.



duction 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.

■ 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 pro-

■ 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 current allowances. As a result, your take-home pay likely increased earlier this year. If you underwithhold, 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 doubled 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. ♦



Thank you

for giving us the opportunity to serve you this year. We value your trust and the confidence you have placed in us. Your business is appreciated, and your referrals are welcome.

We wish you a happy holiday season and a prosperous 2019.

IRSUPDATE

Possible refund for vets injured in combat

Certain veterans injured in combat may be due a credit or refund as a result of the Combat-Injured Veterans Tax Fairness Act of 2016, according to the IRS.

This affects vets who received one-time, lump-sum disability severance payments when they separated from military service after Jan. 17, 1991 and included those payments as income on their tax returns.

Vets should file an amended tax return, Form 1040X, to claim a credit or refund for overpayment related to their severance

payments. Visit the Combat-injured Disabled Veterans page on the IRS website for more info.

Natural disaster tax relief

If you suffered uninsured or unreimbursed losses as a result of Hurricane Florence or other federally declared natural disasters in 2018, you may be able to claim losses on your tax return.

Individuals and businesses in federally declared disaster areas can choose to claim losses on either the return for the year the loss occurred or the return for the prior year.

You may not need to live in a federally declared natural disaster area to qualify for

relief. You're considered "affected" if the records you need to meet a filing or payment deadline during a postponement period are located in the disaster area. Visit the IRS Disaster Relief page on the IRS website for more info.

No change to fourth-quarter interest rates

Overpayments are 5 percent for individuals and 4 percent for corporations. Corporate overpayments exceeding \$10,000 have a 2.5-percent interest rate. The rate charged on underpayments is 5 percent. And large corporate underpayments are charged 7 percent. ♦

5 annual tax essentials

Mark your calendar to review these essential items each year to ensure you are not missing something that could cause trouble when you file your tax return:

1. Required minimum distributions (RMDs)

If you are 70½ or older, you may need to take RMDs from your retirement accounts, or face hefty fines. RMDs need to be completed by Dec. 31 every year after you turn the required age. For the year you turn 70½, you can wait until April 1 of the following year to make the distribution, but you will need to do another one before Dec. 31 of the same year. This means two distributions on one tax return.

2. Your IRS PIN

If you were a victim of prior IRS identity theft you will be mailed a one-time use personal identification number (PIN) sometime in December. Make sure to save the PIN, as it is required to file your Form 1040. If you'd like, you can sign up for the PIN program. Note that once you are enrolled in the program, there is no opt out. A PIN will be required for all future filings with the IRS.

3. Retirement contributions

You may wish to make some last-minute contributions to qualified retirement accounts like an IRA. This can be \$5,500 for traditional or Roth IRAs, plus an additional \$1,000 if you are 50 or older. Contributions to traditional IRAs need to happen by April 15, 2019 to be deducted on your 2018 tax return. If you are looking to max out your 401(k) available through your employer, the 2018 limit is \$18,500 (plus \$6,000 for 50 or older) and needs to be withheld from your paycheck by Dec. 31.

4. Harvest gains and losses

Profits and losses on investments have their own tax rates from 0 percent to as high as 37 percent. Knowing this, make plans to conduct an annual tax review of your investments. This includes:

- Making full use of the annual \$3,000 loss limit on investment sales.
- Understanding investments held longer than one year have lower tax rates as long-term capital gains.
- Trying to net ordinary income tax investment sales with long-term investment losses.

Timing matters with investment sales and income taxes, so keeping a watchful eye on your investments and having a year-end strategy can save you some taxes.

5. Last-minute tax moves

While last-minute tax moves may be limited, here are a few ideas worth considering:

- Make last-minute donations to your favorite charities to maximize your itemized deductions.
- Consider contributions of up to \$100,000 from retirement accounts to qualified charities if you are over the age of 70½.
- Look to make tax-efficient withdrawals from your retirement accounts if you are over the age of 59½.
- Delay receipt of income or accelerate expenses if you are a small business.
- Take advantage of the annual \$15,000 gift-giving limit.

Understanding your current situation and having a plan will make for a smooth tax-filing process and maximize your tax savings. ♦



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. Keep the following items in mind to 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. A recent tariff conversation appeared 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 affected 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. 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 affect 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 a 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. ♦

Your Tax Calendar

Jan. 15, 2019

- Due date for the fourth installment of 2018 individual estimated tax.

Jan. 31

- Due date for employers to provide W-2 statements to employees, and also file Forms W-2 with the Social Security Administration.
- Due date for payers to provide most Forms 1099 to recipients and report Form 1099-MISC non-employee compensation in Box 7 to the IRS.
- Due date for providers to send Forms 1095 to recipients.
- Employers must file 2018 federal unemployment tax returns and pay any tax due.
- Due date to file 2018 fourth quarter Form 941 for Social Security, Medicare and withheld income tax.

Feb. 28

- Payers must file most Forms 1099s (except certain Forms 1099-MISC due Jan. 31) with the IRS.**
- Due date to file Forms 1095 with the IRS.**

March 1

- Farmers and fishermen who did not make 2018 estimated tax payments must file 2018 tax returns and pay taxes in full to avoid a penalty.

**April 1 if filing electronically



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How to survive 3 unavoidable banking trends

Smartphones and other technological advances enable banks to create products and services that dramatically change the way you bank. Here is a primer on three of the biggest banking trends and tips to protect your money:

1 The traditional bank branch is going away. A recent report from consultants McKinsey & Company claims an average of three bank branches are closing every day. Many of the branches that remain open are either closing their lobby or drive-through lanes. Branches don't appear to be going away completely, however, as 80 percent of Americans still prefer human interaction, according to the same McKinsey & Company report. What is likely to change is the manner in which the banker and customer interact. Banking agents roaming branches with tablets (rather than meeting customers at a desk) and teller-less, video-operated bank pods are on the horizon.

Tip: When choosing a bank, understand how it wishes to do business with you. Some will install financial barriers if you want to have a traditional banking relationship. This includes charging you for making deposits, refusing to accept mail deposits, refusing to take coins, charging fees for check writing and other hidden fees.

2 Mobile deposits are becoming more popular. Most banks offer a deposit option that allows you to take a picture of a check on your phone and upload it to the bank's system to be deposited. According to Bank of America CEO Brian Moynihan, more customers now deposit checks on their mobile phones than in branches. Mobile deposits are

extremely convenient, but they have their own set of rules to follow, including endorsements, deposit limits, posting timing and record retention.

Tip: Make sure you understand all the factors before using your phone to deposit a check. Also, read the terms of use before using remote deposit applications. Remember, you are creating a digital link between your phone and your personal banking information.

3 Mobile wallets are replacing physical wallets. Mobile wallets like PayPal, Apple Pay and Zelle give users a convenient way to pay online, pay friends directly and even make payments in stores. According to Apple Pay VP Jennifer Bailey, Apple Pay is accepted at 50 percent of all retail stores.

Each mobile wallet operates a little differently, but the goal is to get users to ditch traditional payment methods and get them on their platform. For the most part, all you need is a bank account and the provider's mobile app and you can start making payments. In addition to convenience, the idea is that new encryption and biometric technologies (like fingerprints and face recognition) give more protection than traditional credit card transactions.

Tip: If you are looking to use a mobile wallet, compare the products to see which one would work best for you. Pay special attention to any consumer complaints and problems others are having with your service of interest.

Even with so many changes and countless options available to you, the point remains that it's your money and you control where to put it. Do the research, talk to friends about banks they use, and ask questions before deciding who to trust with your money. ♦

