Tax Newsletter

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It's November and the holiday season is upon us. With the end of the year less than 2 months away, now is the time to run down your annual year-end checklist. Before you dig in to some turkey and stuffing, check out the 5 Annual Tax Essentials article for some year-end tips you can use every year. Also included in this issue is a warning to retirees regarding their federal tax withholdings, an article detailing the areas the IRS scrutinizes a business during an audit.

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

5 Annual Tax Essentials

The more things change, the more they stay the same. This is especially true when it comes to reviewing your tax situation. Mark your calendar to review these essential items each year to ensure you are not missing something that could cause tax trouble when you file your tax return:

1. **Required minimum distributions**
   If you are 70½ or older, you may need to take required minimum distributions (RMDs) from your retirement accounts. RMDs need to be completed by December 31 every year after you turn the required age. Don't forget to make all RMDs because the fines are extremely hefty if you don't – 50 percent of the amount you should have withdrawn.
2. **Your IRS PIN**
   If you are a victim of IRS identity theft, you will be mailed a one-time use personal identification number (PIN) as added security. You can expect to receive your PIN in the mail sometime in December. Save the PIN as it is required to file your Form 1040. If you would like to sign up for the PIN program, you can do so on the IRS website. 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 be made by April 15, 2019, to be deducted on your 2018 tax return.
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 investment moves you wish to make. This includes:

- 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.
- Making full use of the annual $3,000 loss limit on investment sales.

Timing matters with investment sales and income taxes, so having a year-end strategy can help lower your tax bill.

5. **Last-Minute Tax Moves**
While your last-minute tax move opportunities may be limited, here are a few ideas worth considering:

    - Make 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 older than 70½.
    - Make tax efficient withdrawals from retirement accounts if you are over 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.

Retirees Should Check Withholdings...or Else...

According to a recent announcement by the IRS, retirees might not be withholding enough for taxes this year. This is due to vast tax changes in 2018, making old withholding levels obsolete. The IRS is urging retirees to check their withholdings now and make adjustments if needed to avoid penalties.

Could it be you?

How do you know if you are withholding enough? While the IRS offers a new withholding calculator online, it's designed for employees who are paid wages – not a great option for retirees. The only good way to avoid a tax surprise is to conduct a projection based on your specific situation. You will need to consider taxes already paid, taxes yet to be paid, and estimate total income and deductions to come up with an accurate projection.

Steps to take

If the results of the projection show that you are lagging behind, you still have a bit of time to adjust withholdings or make estimated tax payments. Here are some ways to do this:

- **Adjust pension withholding.** In order to change your pension withholdings, you need to fill out Form W-4P and give it to your pension plan provider.
- **Adjust IRA distribution withholding.** To change IRA withholdings, typically you can go online or call the account provider to update the withholding amount or percentage.

- **Adjust Social Security voluntary withholding.** To adjust the voluntary withholding on your Social Security payments, you need to fill out Form W-4V and return it to your local Social Security office by mail or in person.
- **Make an estimated payment to the IRS.** If withholdings won't be enough or you are worried about timing, you can make a payment to the IRS directly. Form 1040-ES has a voucher that can be sent with the payment and needs to be postmarked by January 15, 2019, to be applied to your 2018 taxes.

Remember, penalties can be added to your taxes if you don't pay enough during the year, so it's important to review your withholdings as soon as possible to avoid a surprise when you file your taxes. Sound complicated? It can be. Please call if you want help evaluating your situation.

The IRS Loves Your Business ... and That is NOT Good

The IRS continues to focus their audit activities in key small business areas. The wise business owner is well advised to be able to defend the following five areas to keep the IRS at a comfortable distance:

- **Business or hobby?** Be ready to provide proof your business is truly a business and not a hobby. Those who fail in the eyes of the IRS can have their expense deductions severely limited, while still required to report the income. Make sure you can answer and provide documentation for these four questions:
  a. What is your profit motive?
  b. Are you an active participant in the business?
  c. Are you conducting the activity in a business-like manner?
  d. What expertise do you have in the service or products your business provides?
- **Reasonable shareholder salary.** S corporations are in the unique situation where some compensation is excluded from payroll taxes. Many businesses take this too far. The IRS is looking closely at businesses who avoid paying a reasonable salary in order to lower their Social Security and Medicare bills. When determining salaries for shareholders, consider their experience, duties, responsibilities, and time devoted to the business. Once you have a picture of their ongoing contributions to the business, research comparable positions and salary ranges to pinpoint a fair salary. Save your findings and calculations as backup to provide in the event of an audit.
- **Contractors or employees?** Make sure consultants and other suppliers are not employees in disguise. The IRS looks at how much control you have over the work being done – the more control you exert, the higher likelihood you may have an employee versus a contractor. Penalties can be very steep if the IRS decides your consultant is really your employee. If in doubt, ask for a review.
- **Expenses for meals and entertainment.** The IRS is now disallowing any entertainment deductions, even if there is business conducted before or after the event. That means business meal documentation is now more important than ever and should include receipts, who attended the meal, and the business purpose of the meal. Bringing food in for business lunches rather than going out is a safe way to show business intent. If you have an event with both entertainment and food included, get two receipts - one for the entertainment and one for the food.

- **File your Forms W-2 and Forms 1099.** Don't forget to file all required 1099s and W-2s. Most of them are due on or before January 31. The IRS is penalty crazy in this area with up to $270 per missing or incorrect form.

Knowing what the IRS is looking for helps you prepare should it turn its focus to your business.
