

## March Monthly Newsletter

2018

### Tax filing reminders

March 1 – Farmers and fishermen who did not make 2017 estimated tax payments must file 2017 tax returns and pay taxes in full.

March 2 – Automatic extension deadline for employers and health care providers to provide Forms 1095-B and 1095-C to individuals.

March 15 –

- 2017 calendar-year S corporation income tax returns are due.
- 2017 partnership returns are due.
- Deadline for calendar-year corporations to elect S corporation status for 2018.

### Alert: Expired home and education tax breaks revived

Congress passed a federal budget bill in early February that revived dozens of expired tax breaks for the 2017 tax year. They include a deduction for education expenses as well as several tax breaks for homeowners.

If you have not yet filed your 2017 tax return, please be aware these late changes are retroactive to the beginning of 2017. Check out this list of the most useful tax breaks to see if they apply to your situation:

**Tuition and fees deduction.** If you paid qualified tuition and related higher education expenses, you may be able to deduct as much as \$4,000 of those costs. This can be done on a regular return (without itemizing). The deduction is capped at \$4,000 for single filers with adjusted gross income (AGI) of \$65,000 or less (\$130,000 joint) and at \$2,000 for single filers with AGI of \$80,000 or less (\$160,000 joint).

**Mortgage insurance deduction.** If you paid mortgage insurance premiums, you can now once again deduct those amounts as an itemized deduction. This deduction begins to phase out for taxpayers with AGI of \$100,000 or more.

**Mortgage debt forgiveness exclusion.** If qualifying mortgage debt on your primary residence was discharged or forgiven, you can exclude that amount from your income.

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Energy-efficient home improvement credit. Energy-efficient home improvements (such as upgrades to windows, or heating and cooling systems), may be eligible for a tax credit equal to 10 percent of the amount paid, up to \$500.

If you think any of these apply to you, bring all the related documentation to your tax filing appointment. If you have already filed, you may need to file an amended tax return to capture these very late law changes.

### Answers to commonly asked tax questions

With all of the headlines about the changes to tax law, you probably have lots of questions. Here are answers to some of the most common questions taxpayers have this year.

#### **Q. *I'm hearing about a lot of changes to 2018 taxes. What should I do?***

A. You're right, there are a lot of changes in 2018 due to the passage of the Tax Cuts and Jobs Act (TCJA), including to the income tax brackets. The simple answer to the question, "What should I do?" is to not make any major changes until you finish filing your 2017 taxes. Once you understand your 2017 tax obligation, you are in a better position to plan for 2018.

However, there are a few things you can start thinking about now. Depending on where you fall in the new income tax brackets, you may want to consider ways to lower your taxable income. This could include increasing your contributions to 401(k) retirement accounts or health savings accounts (HSAs). You'll also want to make sure your employer has adjusted your federal tax withholding so that you don't have to wait to receive a large refund (or tax bill) next year. You can review the IRS withholding calculator using your latest pay stub data to make sure the changes are accurate.

#### **Q. *What is the penalty amount if I didn't have health insurance in 2017?***

A. The penalty per adult is calculated as the greater of either \$695 or 2.5 percent of your yearly household income, up to a maximum of \$3,264 for individuals or \$16,320 for a family of five or more. Note that the penalty is still in place for tax years 2017 and 2018. The TCJA eliminates the penalty for 2019 through 2025.

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### Q. *Is Social Security taxed?*

A. It depends. You won't pay tax on more than 85 percent of your Social Security income, but how much gets taxed depends on your income bracket. If your combined income is less than \$25,000 for the year, you won't pay tax on Social Security income.

### Q. *When is the last day to do my taxes?*

A. Technically, Tuesday, April 17. But don't wait until the last minute. Ask for help to get started now, or to file an extension so you have time to complete your tax return later. The sooner you file, the sooner you can get your refund. It usually takes about three weeks to arrive from the date you file. Also, remember you need to keep most tax related documents for at least three years, so don't toss your paperwork after you file.

### Q. *The IRS contacted me, what should I do?*

A. Ask for help. There are numerous scammers who impersonate the IRS during tax season. The real IRS will never contact you via social media, email or text message. In addition, an IRS agent will not contact you over the phone unless you first receive official correspondence in the mail. If you have received a notice in the mail, immediately ask for help to determine how to proceed.

These are just a few of the questions people have during tax season. If you have more, don't forget to bring them to your 2017 filing appointment.

### 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 doesn't 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's 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.

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• 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's 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'll 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'll 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 don't be intimidated. Help is available so don't hesitate to call if you have any questions.



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