JGL MANAGEMENT

TAX NEWS

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For small business, filing taxes can be a big undertaking. Here are tips for staying ahead of deadlines with a proactive approach.

Manta had a nice article about new year things to do. Do you always say "where did the time go?" While the April 15 tax deadline is off in the distance, there are a few accounting and housekeeping tasks every small business and independent contractor needs to shore up early, before it's too late.

Send out/request all W-2 and 1099 forms. Any contractor who you paid a *total* of $600 or more in 2018 is must receive a 1099. Be sure all the included information is correct to avoid having to issue a corrected form later. And remember, while forms can be securely digitally shared, information containing social security numbers and other sensitive information shouldn't be emailed.

Contractors, be sure all your clients have your current address and contact information so you can receive your forms. Employees, things changed in 2018, be sure your information is current with HR/payroll (especially if you've moved or changed tax filing status) so the correct local and state taxes are being deducted from this point forward.

Set an appointment for tax prep. The recently passed Tax Cuts and Jobs Act has created a number of changes for individual filers, contractors and businesses that can affect how much each is able to deduct. Even if you traditionally use an online tax preparation software program, this year many businesses will find it well worth the investment to have a professional walk them through how the changes affect their tax burden and how to legally maximize their return. The new law will likely send many flocking to a pro, so make your appointment now before our calendar fills up.

Plan ahead for any major projects while your yearly budget is fresh. If a major project like a website refresh, new employee, work with a contractor or store opening could be in your future this calendar year, set aside a budget and begin to make a timeline now, even if the project isn't set to begin until Q4. If you wait to plan until later in the year, your budget and resources will often be eaten up. So plan smart now to stay on budget and on track later.

Tax Changes for People

The new tax bill retains the seven tax brackets found in the old law, but lowers a number of the tax rates. It also changes the income thresholds at which the rates apply.

The old brackets are: 10%, 15%, 25%, 28%, 33%, 35% and 39.6%
The new brackets are: 10%, 12%, 22%, 24%, 32%, 35% and 37%

Increased standard deduction:
The new tax law nearly doubles the standard deduction amount. Single taxpayers will see the Standard deductions jump from $6,350 for 2017 taxes to $12,000 for 2018 taxes. Married couples filing jointly see an increase from $12,700 to $24,000. These increases mean that fewer people will have to itemize. Today, 30% of taxpayers itemize.

Increased Child Tax Credit:

For, families with children the **Child Tax Credit** is doubled from $1,000 per child to $2,000. In addition, the amount that is refundable grows from $1,100 to $1,400. The bill also adds a new, non-refundable credit of $500 for dependents other than children. Finally, it raises the income threshold at which these benefits phase out from $110,000 for a married couple to $400,000.

Eliminations or Reductions in Deductions—a little bad in 2018 for taxpayers

Personal and dependent exemptions:

The bill eliminates the personal and dependent exemptions which were $4,150 in 2018.

State and local taxes/Home mortgages:

The bill limits the amount of state and local property, income, and sales taxes that can be deducted to $10,000. These taxes have generally been fully tax deductible. The bill also caps the amount of mortgage indebtedness on new home purchases on which interest can be deducted at $750,000 down from $1,000,000 in current law

Health care:

It temporarily lowers the floor above which out-of-pocket medical expenses can be deducted from the current law floor of 10% to 7.5% for 2017 and 2018. So for 2018, you can deduct medical expenses that are more than 7.5% of your adjusted gross income as opposed to the higher 10%.

Self-employed (contractors, freelancers, sole proprietors) and small businesses:

The bill has a myriad of changes for business. The biggest includes a reduction in the top corporate rate to 21%, a new 20% deduction for incomes from certain type of "pass-through" entities (partnerships, S Corps, sole proprietorships), limits on expensing of interest from borrowing, almost doubling of the amount small businesses can expense from the 2017 Section 179 amount of $510,000 to $1,000,000, and eliminates the corporate alternative minimum tax (AMT).

Adjusting your income: by contributing to retirement accounts

If you haven't already funded your retirement account for 2018, do so by April 15, 2019. That's the deadline for contributions to a traditional IRA, deductible or not, and to a Roth IRA. However, if you have a Keogh or SEP and you get a filing extension to October 15, 2019, you can wait until then to put 2018 contributions into those accounts. To start tax-free compounding as quickly as possible, however, don't dawdle in making contributions. Making a deductible contribution will help you lower your tax bill this year. Plus, your contributions will compound tax-deferred. It's hard to find a better deal.

If you put away $5,000 a year for 20 years in an investment with an average annual 8 percent return, your $100,000 in contributions will grow to $247,000. The same investment in a taxable account would grow to only about $194,000 if you're in the 25 percent federal tax bracket.

To qualify for the full annual IRA deduction in 2018, you must either:

1. not be eligible to participate in a company retirement plan, or if you are eligible, you must have adjusted gross income of $63,000 or less for singles, or $101,000 or less for married couples filing jointly.
2. If you are not eligible for a company plan but your spouse is, your traditional IRA contribution is fully-deductible as long as your combined gross income does not exceed $189,000.

For 2018, the maximum IRA contribution you can make is $5,500 ($6,500 if you are age 50 or older by the end of the year). For self-employed persons, the maximum annual addition to SEPs and Keoghs for 2018 is $55,000.

Although choosing to contribute to a Roth IRA instead of a traditional IRA will not cut your 2018 tax bill—Roth contributions are not deductible—it could be the better choice because all withdrawals from a Roth can be tax-free in retirement.. IRA are fully taxable in retirement. To contribute the full $5,500 ($6,500 if you are age 50 or older by the end of 2018) to a Roth IRA, you must earn $120,000 or less a year if you are single or $189,000 if you're married and file a joint return.

The amount you save for making a contribution will vary. If you are in the 25% tax bracket and make a deductible IRA contribution of $5,500, you will save $1,375 in taxes the first year. Over time, future contributions will save you thousands, depending on your contribution, income tax bracket, and the number of years you keep the money invested.