LIMA & ASSOCIATES, LLC

Certified Public Accountants and Business Advisors

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Inside this issue:

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Tax Cuts and Jobs Act of 2017: Looking Forward to 2018

On December 22, 2017 President Trump signed the Tax Cuts and Jobs Act of 2017 into law. The provisions of the Act are effective January 1, 2018 with some exceptions. Taxpayers who make estimated tax payments will need expanded planning to ensure compliance with estimated tax provisions.

Individual Provisions

Individual taxpayers will see a change in the income tax rates and brackets with generally lower rates. You will likely see a change in your income tax withholding by February 2018. Capital gains rates have remained the same with modest changes in the brackets. The net investment income tax remains unchanged.

The standard deduction has been increased to $24,000 for married filing joint, $12,000 for single taxpayers and $18,000 for head of household. Personal exemptions are eliminated, however, the Child Tax Credit will be available to more taxpayers and has been increased from $1,000 to $2,000. A new dependent credit of $500 has been added for other dependents. The phase-out for both credits is $400k - $500k for MFJ. This credit is not available to the taxpayer and spouse.

State and local taxes, including state income tax, state sales tax and real property taxes, will be limited to a total of $10,000 on Schedule A.

Mortgage interest on new acquisition debt will be limited to the interest paid on the first $750,000. The mortgage must be used for a principle residence or second home. Existing mortgages are not affected and there are transition rules for applications in process. The deduction for the interest related to home equity lines of credit has been suspended.

The deduction for 2% miscellaneous itemized deductions has been suspended, including the deductions for unreimbursed employee business expenses and investment expenses.

The deduction for casualty losses has been suspended except in the event of a federally declared disaster.

The charitable contribution for college athletic seating rights has been repealed.

The phase-out of itemized deductions has been suspended.

The moving expense deduction has been repealed for everyone except active duty military.

For agreements entered into after 2018, alimony will not be deductible by the payor or includible in payee income.

The special rule permitting recharacterization of Roth conversions is repealed. You can still convert a traditional IRA to a Roth IRA. However, you will no longer be able to convert back to a traditional IRA.

The Individual Mandate has been repealed effective for years beginning after December 31, 2018.

The rules related to 529 plans have been expanded to allow the accounts to cover up to $10,000 per year for private tuition and homeschooling for students in K-12.

AMT exemption increased to $109,400 for MFJ and the phase-out increased to $1 million.

Pass through entities and schedule C businesses get up to a 20% deduction of "qualified business income".

When taxable income before the pass-through deduction reaches $315,000 (MFJ) or $157,500 (Single) the deduction is limited to the greater of 50% of your allocable W-2 wages from the business or 25% of allocable W-2 wages plus 2.5% of the unadjusted basis of property used in the production of income. There is an additional allocation when taxable income falls between $315,000 and $415,000 MFJ ($157,500 and $207,500 Single).

Income from "specified service businesses" (health, law, accounting, consulting, financial services, performing arts, athletics, and so on) is not eligible for the pass-through deduction when the taxpayer and spouse income exceeds the phase-out limitations above. A "specified service business" is generally a business where the principal asset of the business is the reputation or skill of one or more owners or employees.

Our office is trained and ready to assist you with 2018 tax planning for the above tax law changes.

Business Provisions

The C Corporation tax rate is reduced to 21% and corporate AMT has been repealed.

After 2017 NOL Carryforwards may offset only 80% of future taxable income and you may no longer carry losses back.

More C corporations and partnerships with a C corporation partner will be able to use the cash method of accounting under new accounting method provisions. Returns for 2018 will include an automatic change in accounting method for taxpayers electing the cash method under the expanded $25 million gross receipts test.

For accrual method taxpayers, income must be included in taxable income no later than it is included for financial accounting purposes. An election is available for advance payments. Any required change in accounting method is treated as an automatic change.

After 2017, there will be no deduction for entertainment expenses. This will disallow greens fees, event tickets and other items of client and customer entertainment. Meals will continue to be deductible at 50%.

The transportation fringe benefit has been suspended in most circumstances.

An employer credit is provided for paid family and medical leave when a written policy is in place. The credit will be 12.5% - 25% of wages paid to qualifying employees. The maximum amount of leave subject to the credit is 12 weeks.

The Domestic Production Activities Deduction (DPAD) is repealed.

Rehabilitation credits have been limited to certified historic structures with a transition rule for existing projects.

100% Bonus depreciation on qualifying post 9/27/2017 asset acquisitions. Bonus depreciation has been expanded to include used assets as well with related party rules to prevent churning.

Like-kind exchanges continue to be available for real estate but have been suspended for personal property (such as vehicles).

The 100% Bonus depreciation comes at a cost. There is now a limitation on the deductibility of interest expense for businesses with average gross receipts of $25 million over the past 3 years. Interest expense deductions will be limited to 30% of adjusted taxable income plus business interest income.

A real property trade or business can elect out of the limitation on interest expense deductibility, but in doing so loses the 100% bonus depreciation. A real property trade or business means any real property development, redevelopment, construction, reconstruction, acquisition, conversion, rental, operation, management, leasing or brokerage trade or business.

The interest expense provisions are applied at the partnership and S corporation level with excess interest carryforwards allocated to the partners and shareholders.

The Section 179 deduction has been increased to $1 million and the phase-out to $2.5 million.

The definition of qualified real property as Section 179 property has been expanded to include roofs, heating, ventilation, air-conditioning (HVAC) property, fire protection and alarm systems and security systems in non-residential property. These provisions are effective 1/1/2018 and the property cannot be expensed using bonus depreciation.

Further, depreciation limits on luxury automobiles have been increase. First year depreciation is increased from $2,560 to $10,000.

Employer paid tuition reimbursements will become taxable if the employer does not have a Section 127 plan in effect. A Section 127 plan is a separate written plan of an employer for the exclusive benefit of his employees to provide such employees with educational assistance.

There will no longer be a deduction for local lobbying, effective after the date of enactment (12/22/2017).

Contributions of capital by a customer, potential customer, governmental entity or civic group are no longer tax free.

There are also other tax provisions that may affect you. Please contact our office with any questions you may have.

For those of you considering converting from a partnership or S corporation to a C corporation, please schedule a planning meeting with our office first. There are other considerations and this may not be the best option for you in the long-term.

Standard Mileage Rate - The standard mileage rate for business is $0.545 per mile for 2018. The rate for medical and moving is $0.18 and $0.14 for charity per mile.

Retirement - For 2018, the elective deferral (contribution) limit for employees who participate in 401(k), 403(b), most 457 plans and the federal government's Thrift Savings Plan is $18,500. For persons age 50 or older in 2018, the limit is $24,500 ($6,000 catch-up contribution).

Contribution limits for SIMPLE plans remain at $12,500 for persons under 50 and $15,500 for anyone age 50 or older in 2018. The maximum compensation used to determine contributions is $275,000 in 2018.

Saver's Credit - In 2018, the adjusted gross income limit for the saver's credit (also known as the retirement savings contribution credit) for low and moderate income workers is $63,000 for married filing joint, $47,250 for head of household and $31,500 for single and married filing separate taxpayers. The credit is 50%, 20% or 10% of retirement contributions up to $2,000 ($4,000 MFJ).

Hurricane Relief

On September 29, 2017 President Trump signed into law the "Disaster Tax Relief and Airport and Airway Extension Act of 2017" which provides temporary tax relief to victims of Hurricanes Harvey, Irma and Maria.

Individuals

Relief for individuals includes loosened restrictions for claiming personal casualty losses, tax-favored withdrawals from retirement plans, and the option of using current or prior year income for purposes of claiming the earned income and child tax credits as well as expanded charitable contributions. The provisions of this Act are unaffected by the Tax Cuts and Jobs Act of 2017 as it applies to disaster relief for 2017.

Eased Casualty Loss Rules

For taxpayers who suffer a "net disaster loss" (defined as the excess of qualified disaster related personal casualty losses over personal casualty gains) the relief is as follows:

- The 10% AGI limit is removed
- The net disaster loss may be added to the standard deduction for taxpayers that do not itemize
- No reduction in the loss for taxpayers subject to AMT

The Act increases the $100 per-casualty floor to $500 for qualified disaster related personal casualty losses.

Access to Retirement Funds

Taxpayers may make "qualified hurricane distributions" of up to $100,000 from an eligible retirement plan.

- The distributions are exempt from the 10% early withdrawal penalty
- Taxpayers can spread the income over a 3-year period
- The distribution can be re-contributed at any time over a 3-year period beginning the day after the distribution was received and file amended returns to recoup the tax previously paid

- There is no withholding on the distribution
- The amount of allowable loans is increased from $50,000 to $100,000 and removes the ½ of present value limitation
- Loans have a longer repayment term by delaying the first payment by one year

Charitable Deduction Limits Suspended

For qualifying charitable contributions associated with qualified hurricane relief the Act:

- Temporarily suspends the majority of limitations on charitable contributions
- Provides contributions will not be taken into account when applying limitations to other contributions
- Provides eased rules with respect to excess contributions
- Provides an exception to the overall limitation on itemized deductions for certain qualified contributions.

There are strict rules to qualify contributions so please contact our office if you have made or plan to make significant relief contributions.

EIC and Child Tax Credit

The Act allows a "qualified individual" to substitute their earned income for the preceding year when calculating these credits.

Businesses

Employee Retention Credit

Businesses that qualify for relief may claim a "employee retention tax credit". Eligible employers are generally defined as employers that conducted an active trade or business in a disaster zone as of a specified date (8/23/17 for Harvey, 9/4/17 for Irma and 9/16/17 for Maria) which was rendered inoperable as a result of damage sustained by the hurricane on any day between the specified date and January 1, 2018.

The credit equals 40% of up to $6000 of “qualified wages” or up to $2,400 per eligible employee. An “eligible employee” is one whose principal place of employment with the employer was in one of the disaster zones as of the respective dates above. Qualified wages are wages paid by an eligible employer to an eligible employee while the business was unable to conduct significant operations.

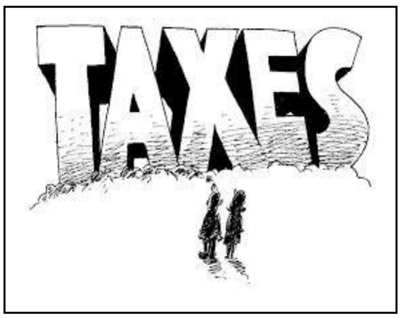
Due Date Extensions

Returns due after the disaster due date have been given an extended due date to January 31, 2018. If you were a late filer, and receive a late payment notice, please contact our office. This does not include returns where payment was due before the specified date.

Corporate Charitable Donations

A majority of the charitable deduction limitations for qualifying charitable contributions associated with qualified hurricane relief have been suspended for charitable contributions made by year end. There are strict rules to take advantage of this provision so please contact our office for additional information related to disaster relief contributions.

2017 Income Tax



We have reviewed the major provisions of the Tax Cuts and Jobs Act of 2017, most of which are effect January 1, 2018. Following is a summary of the current tax provisions which are still in effect for the 2017 tax year.

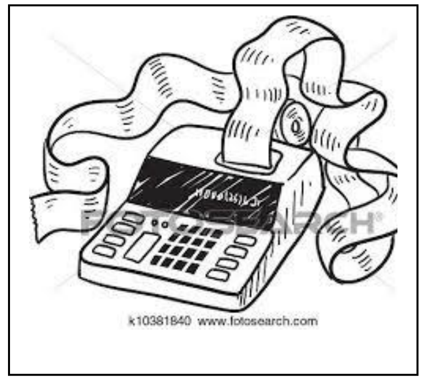
Personal Exemptions – The personal and dependent exemption for tax year 2017 is $4,050.

Standard Deduction – The 2017 standard deduction for married filing joint is $12,700. For single and married filing separate it is $6,350 and for head of household the deduction is $9,350. The additional 2017 standard deduction for blind people and senior citizens is $1,250 for married individuals and $1,550 for single and head of household.

Pease and PEP (Personal Exemption Phase-out) – Pease (limitations on itemized deductions) and PEP (personal exemption phase-out) limitations were made permanent by ATRA (indexed for inflation) and affect taxpayers with income at or above $261,500 for single filers and $313,800 for married filing jointly in tax year 2017. While the Pease and PEP limitations have been suspended by the Tax Cuts and Jobs Act of 2017 for years beginning after 2017, they are still in effect for 2017.

Flexible Spending Accounts (FSA) – Flexible Spending Accounts (FSAs) are limited to $2,600 per year in 2017 and apply only to salary reduction contributions under a health FSA. The term “taxable year” as it applies to FSAs refers to the plan year of the cafeteria plan, which is typically the period during which salary reduction elections are made.

In the case of a plan providing a grace period (which may be up to 2 months and 15 days), unused salary reduction contributions to the health FSA for plan years beginning in 2012 or later that are carried over into the grace period for that plan year will not count against the $2,600 limit for the subsequent plan year. Further, employers may allow people to carry over into the next calendar year up to $500 in their accounts, but are not required to do so.



Child and Dependent Care Credit – The child and dependent care tax credit was permanently extended for taxable years starting in 2013. If you pay someone to care for your dependent (under age 13 or incapable of self-care) in order for you to work or look for work, you may qualify for a credit of up to $1,050 or 35% of up to $3,000 per dependent of eligible expenses. For higher income earners, the credit is limited to 20%.

Earned Income Tax Credit (EITC) – For tax year 2017, the maximum earned income tax credit (EITC) for low and moderate income workers and working families increased to $6,318 (up from $6,269 in 2016). The maximum income limit for the EITC increased to $53,900 (up from $53,595 in 2016) for married filing joint. The credit varies by size, filing status and other factors, with the maximum credit going to joint filers with three or more qualifying children.

Adoption Credit – In 2017 a nonrefundable (i.e. only those with a tax liability will benefit) credit of up to $13,570 is available for qualified adoption expenses for each eligible child.

Child Tax Credit – For tax year 2017, the child tax credit is $1,000 per eligible dependent. A portion of the credit may be refundable, which means that you can claim the amount you are owed even if you have no tax liability for the year. The credit is phased out for those with higher incomes.

Coverdell Education Savings Account – You can contribute up to $2,000 a year to Coverdell savings accounts in 2017. These accounts can be used to offset the cost of elementary and secondary education as well as post-secondary education. The allowable contributions phases out for married filing joint taxpayers with modified adjusted gross income from $190,000 - $220,000 ($95,000 - $110,000 for single filers).

American Opportunity Tax Credit – For 2017, the maximum American Opportunity Tax Credit that can be used to offset certain higher education expenses is $2,500 per student, although it is phased out beginning at $160,000 adjusted gross income for joint filers and $80,000 for other filers.

Lifetime Learning Credit – A credit of up to $2,000 is available for an unlimited number of years for certain costs of post-secondary or graduate courses or courses to acquire or improve your job skills. For 2017, the modified adjusted gross income threshold at which the lifetime learning credit begins to phase out is $112,000 for joint filers and $56,000 for single filers and heads of household.

Employer-Provided Educational Assistance – In 2017, as an employee, you can exclude up to $5,250 of qualifying post-secondary and graduate education expenses that are reimbursed by your employer.

Student Loan Interest – In 2017 you can deduct up to $2,500 in student loan interest as long as your modified adjusted gross income is less than $80,000 (single) or $165,000 (married filing joint). The deduction is phased out at higher income levels. In addition, the deduction is claimed as an adjustment to income so you do not need to itemize deductions.

New Lower Florida Sales Tax Rate for Commercial Rentals

Effective January 1, 2018, the Florida sales tax rate on the rental of real property is decreased from 6% to 5.8%. The local discretionary sales surtax imposed by the county where the real property is located continues to apply. (For example, the Pinellas County surtax is 1%, so the total sales tax rate is 6.8%.)

Business Identity Theft on the Rise

The IRS notes that the tax industry has made significant progress in the past two years against tax-related identity theft aimed at individuals but warns that business identity theft is on the upswing. Beginning in 2017, tax preparation software for business related returns will ask additional questions to assist government agencies in identifying suspicious returns as follows:

- The name and social security number of the company executive authorized to sign the corporate tax return.
- Estimated tax payment history including when, how and how much (mostly relates to C corporations.
- Is there a parent company, and if so, the identifying information.
- Were other business related tax forms filed, and if so, which ones.

All of this information will assist in identifying that the proper taxpayer is submitting the returns.

NEW GUIDANCE

Offsetting Payroll Tax with the Research Credit - Businesses that increase certain research expenses may use a research credit to reduce their income tax liability. In addition, for tax years that begin after December 31, 2015, eligible small businesses can take advantage of a new option enabling them to apply part or all of their research credit against their payroll tax liability instead of their income tax liability. The option to elect the new payroll tax credit may be especially helpful for eligible startup businesses that have little or no income tax liability. To qualify for the new option for 2016 forward, a business must have gross receipts of less than $5 million and may not have had gross receipts before 2012. Under the new rules, an eligible small business with qualifying research expenses can choose to apply up to $250,000 of its research credit against its payroll tax liability.

IRS Private Debt Collection Program Kicks Off

This past spring, the IRS began sending letters to notify "a relatively small group of individuals" with overdue federal income tax that their accounts had been assigned to one of four private collection agencies (PCAs). The assignments were authorized by legislation enacted in 2015. PCAs are authorized to discuss payment options, including setting up payment agreements with taxpayers. But, as with cases assigned to IRS employees, any tax payment must be made, either electronically or by check, to the IRS. The IRS also warned taxpayers to be wary of scammers posing as PCAs and to keep in mind that a legitimate PCA will only be calling about a tax debt that the person has had, and has been aware of, for years and had been contacted about previously by the IRS.

MARK YOUR CALENDARS

- January 15, 2018 – 2017 4th Quarter Estimates are due (Disaster Relief extension to January 31, 2018).
- January 31, 2018 – All W-2's and 1099's need to be distributed to employees or contractors.
- January 31, 2018 – File government copies of W-3/W-2's and 1096/1099's.
- February 15, 2018 – Please provide all information to prepare your 2017 corporate and/or partnership returns.
- March 15, 2018 – Partnership and S Corporation returns are due.
- March 15, 2018 – Please provide all information to prepare your 2017 Individual Income Tax Return or extension.
- April 1, 2018 – Tangible Personal Property Tax Returns are due.
- April 15, 2018 – C Corporation, Individual, Estate and Trust and Foreign Financial Accounts (FinCEN) Tax Returns are due.
- April 15, 2018 – 2018 1st quarter estimated tax payments are due.
- May 1, 2018 – Annual Report with Florida Department of State due (https://services.sunbiz.org/Filings/AnnualReport/FilingStart).
- May 15, 2018 – Exempt Organizations (Form 990 & 990-PF) Returns are due.
- June 15, 2018 – 2018 2nd quarter estimated tax payments are due.

Welcome to Lima & Associates, LLC

Justine T. Badman, CPA – We have expanded to add Justine as our Tax Manager. She has 30 years of experience in public accounting and is licensed in Ohio and Florida. Justine has focused her career with small public accounting firms and has a deep understanding of client needs in that market.

Justine is knowledgeable in tax planning and preparation of corporation, s corporation, partnership and individual income tax returns. Justine also has experience preparing trust and estate income tax returns and nonprofit income tax returns. She has consulted for small business clients, and has prepared and supervised compilations and reviews in a variety of industries.

Justine received her Bachelor of Arts with a major in Management from Malone University in Canton, Ohio. Justine is a member of the American and Florida Institutes of Certified Public Accountants (AICPA and FICPA).

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