LIMA & ASSOCIATES, LLC

Certified Public Accountants and Business Advisors

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Avoiding an Unexpected Tax Bill

Income tax withholding can be more complicated than many taxpayers think, and with the passage of the Tax Cuts and Jobs Act (TCJA) legislation, it's even more so since a number of tax provisions have changed. As such, it's important to make sure the right amount of income tax is being withheld for your particular tax situation.

Many taxpayers have already adjusted their withholding, but for those with more complicated tax situations who have been putting it off, it's not too late. You should be aware, however, that the longer you wait, the fewer pay periods there are to withhold the necessary federal tax. In other words, more tax will have to be withheld from each remaining paycheck.

Let's take a look at which taxpayers would benefit from a "paycheck checkup" right now to avoid an unexpected tax bill next year.

Taxpayers Receiving Large Refunds

Taxpayers who typically adjust their tax withholding so that they receive a large refund at tax time could be affected by tax law changes in the TCJA including reduced tax rates and significantly different tax brackets, as well as the removal of personal exemptions and doubling of the standard deduction. Adjusting tax withholding now can help taxpayers make sure the amount withheld is best for their particular tax situation--and avoid an unpleasant tax surprise next year.

High Income Taxpayers with Complex Returns

High-income taxpayers often find that itemizing instead of taking the standard deduction is more beneficial, but with the passage of tax reform legislation, that might no longer be the case. Taxpayers affected by any of the following tax changes should check and adjust their withholding as soon as possible:

- Changes to tax rates and brackets.
- Elimination of personal exemptions.
- Expansion of the child tax credit.
- The standard deduction nearly doubled to $24,000 for joint filers and $12,000 for singles.

- A $10,000 cap on deductions for state and local property, sales and income taxes.
- New limits on deductions for some mortgage interest and home equity debt.
- Higher limits on the percent of income a taxpayer can deduct as charitable contributions.
- No deductions for miscellaneous expenses including investment expenses and unreimbursed employee expenses such as travel, meals, entertainment and uniforms.

It is especially important for those with high incomes and complex returns to review withholding because these taxpayers are often affected by more of these changes than people with simpler returns. This is especially true if they also make quarterly estimated tax payments to cover other sources of income or are subject to the self-employment tax or alternative minimum tax.

Taxpayers with Dependents

In addition to expanding the Child Tax Credit, the TCJA added a new tax credit for parents or other qualifying relatives supporting a dependent age 17 or older at the end of 2018. This new tax credit – Credit for Other Dependents - is a non-refundable credit of up to $500 per qualifying person. This change, along with others, can affect a family's tax situation in 2018 and it's important to check and adjust withholding amounts, if necessary, to prevent an unexpected tax bill and even penalties next year at tax time.

Tip: Families with qualifying children under the age of 17 should first review their eligibility for the expanded Child Tax Credit, which is larger. Taxpayers should also note that both credits begin to phase out at $400,000 of modified adjusted gross income for joint filers and $200,000 for other taxpayers.

Taxpayers Working in the Sharing Economy

Because the U.S. tax system operates on a pay-as-you-go basis, taxes must be paid on income as it is received rather than at the end of the year. Generally, people who are part of the sharing economy and who do not have an employer need to make sure they pay their taxes either through withholding from other jobs they may have or by making quarterly estimated tax payments to cover their tax obligations.

Taxpayers Owing Estimated Taxes

Underpayment of taxes is a common scenario with more than 10 million taxpayers facing a penalty for underpayment of estimated tax last year alone. Tax is typically withheld for most people who receive salaries, wages, pensions, unemployment compensation and the taxable part of Social Security benefits. However, with numerous changes to the tax system due to tax reform many taxpayers may need to adjust withholding on their paychecks or the amount of their estimated tax payments to help prevent penalties.

While most income is subject to tax withholding, some income from self-employment or rental activities is not. Furthermore, individuals, including sole proprietors, partners, and S corporation shareholders, may need to make estimated tax payments unless they owe less than $1,000 when they file their income tax return or they had no tax liability in the prior year (subject to certain conditions). As a reminder, in the United States, taxes are required to be paid as income is earned or received during the year.

Retirees with Pension and Annuity Income

The TCJA also changed the way tax is calculated for retirees, many of whom have income from pensions and annuities. As such, retirees who receive a monthly pension or annuity check may need to raise or lower the amount of tax they pay during the year. Retirees should treat their pension similar to income from a job. Pension recipients that need to change their withholding can do so by filling out Form W-4P and submitting it to their payor. Retirees should submit Forms W-4P to their payors as soon as they can to give payors enough time to apply any changes to withholding to as many payments as possible this year.

Note: Because it is already November, some retirees may be unable to cover their expected tax liability through withholding and could instead make estimated or additional tax payments directly to the IRS. Please call if you need more information about this option.

Questions about Withholding?

Lima & Associates, LLC is here to assist you in determining what, if any, adjustments you should make before year-end to ensure you do not have an unexpected tax liability. Please call our office to schedule an appointment or discuss any concerns.

Home Equity Loan Interest Still Deductible

The Tax Cuts and Jobs Act has resulted in questions from taxpayers about many tax provisions including whether interest paid on home equity loans is still deductible. The good news is that despite newly-enacted restrictions on home mortgages, taxpayers can often still deduct interest on a home equity loan, home equity line of credit (HELOC) or second mortgage, regardless of how the loan is labeled.

"I got the feeling you're struggling with your taxes, so I took the liberty of hiring you a professional

Background

The Tax Cuts and Jobs Act of 2017, enacted December 22, 2017, suspends from 2018 until 2026 the deduction for interest paid on home equity loans and lines of credit, unless they are used to buy, build or substantially improve the taxpayer's home that secures the loan.

Under the new law, for example, interest on a home equity loan used to build an addition to an existing home is typically deductible, while interest on the same loan used to pay personal living expenses, such as credit card debts, is not. As under prior law, the loan must be secured by the taxpayer's main home or second home (known as a qualified residence), not exceed the cost of the home and meet other requirements.

New dollar limit on total qualified residence loan balance

For anyone considering taking out a mortgage, the new law imposes a lower dollar limit on mortgages qualifying for the home mortgage interest deduction. Beginning in 2018, taxpayers may only deduct interest on $750,000 of qualified residence loans. The limit is $375,000 for a married taxpayer filing a separate return. These are down from the prior limits of $1 million, or $500,000 for a married taxpayer filing a separate return. The limits apply to the combined amount of loans used to buy, build or substantially improve the taxpayer's main home and second home.

For more information about deducting interest on home equity loans or the new tax law, please call Lima & Associates, LLC.

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Charitable Contribution Planning

Charitable contributions are deducted as a part of itemized deductions. With the changes to the standard deduction (almost doubling it) and itemized deductions (creating new limits and elimination miscellaneous itemized deductions and casualty losses with the exception of federally declared disasters) many taxpayers will find that the standard deduction is usually the best option. So how will you be able to deduct your charitable contributions in the future?

One strategy is to "bunch" your donations to charities in specific years, while limiting donations in other years. When you contribute by bunching your donations, you combine multiple years of "normal" annual charitable contributions into a single year.

Another strategy for IRA owner's age 70 ½ or over is to directly transfer, tax-free, up to $100,000 per year to an eligible charity. The IRA excludes the distribution from income and does not include the donation on Schedule A. The transfer must be made directly from the IRA to the charity to qualify.

Disabled Veterans – Are you due a refund?

The Internal Revenue Service today is advising certain veterans who received disability severance payments after January 17, 1991, and included that payment as income that they should file Form 1040X, Amended U.S. Individual Income Tax Return, to claim a credit or refund of the overpayment attributable to the disability severance payment.

This is a result of the Combat-Injured Veterans Tax Fairness Act passed in 2016.

Most veterans who received a one-time lump-sum disability severance payment when they separated from their military service will receive a letter from the Department of Defense with information explaining how to claim tax refunds they are entitled to; the letters include an explanation of a simplified method for making the claim. The IRS has worked closely with the DoD to produce these letters, explaining how veterans should claim the related tax refunds.

Statute of Limitations

The amount of time for claiming these tax refunds is limited. However, the law grants veterans an alternative timeframe – one year from the date of the letter from DoD. Veterans making these claims have the normal limitations period for claiming a refund or one year from the date of their letter from the DoD, whichever expires later. As taxpayers can usually only claim tax refunds within 3 years from the due date of the return, this alternative time frame is especially important since some of the claims may be for refunds of taxes paid as far back as 1991.

Amount to Claim

Veterans can submit a claim based on the actual amount of their disability severance payment by completing Form 1040X, carefully following the instructions. However, there is a simplified method. Veterans can choose instead to claim a standard refund amount based on the calendar year (an individual's tax year) in which they received the severance payment. Write "Disability Severance Payment" on line 15 of Form 1040X and enter on lines 15 and 22 the standard refund amount listed below that applies:

- $1,750 for tax years 1991 – 2005
- $2,400 for tax years 2006 – 2010
- $3,200 for tax years 2011 – 2016

Claiming the standard refund amount is the easiest way for veterans to claim a refund, because they do not need to access the original tax return from the year of their lump-sum disability severance payment.

Special Instructions

All veterans claiming refunds for overpayments attributable to their lump-sum disability severance payments should write either "Veteran Disability Severance" or "St. Clair Claim" across the top of the front page of the Form 1040X that they file. Because all amended returns are filed on paper, veterans should mail their completed Form 1040X, with a copy of the DoD letter, to:

Internal Revenue Service
333 W. Pershing Street, Stop 6503, P5
Kansas City, MO 64108

Veterans eligible for a refund who did not receive a letter from DoD may still file Form 1040X to claim a refund but must include both of the following to verify the disability severance payment:

- A copy of documentation showing the exact amount of and reason for the disability severance payment, such as a letter from the Defense Finance and Accounting Services (DFAS) explaining the severance payment at the time of the payment or a Form DD-214, and
- A copy of either the VA determination letter confirming the veteran's disability or a determination that the veteran's injury or sickness was either incurred as a direct result of armed conflict, while in extra-hazardous service, or in simulated war exercises, or was caused by an instrumentality of war.

Veterans who did not receive the DoD letter and who do not have the required documentation showing the exact amount of and reason for their disability severance payment will need to obtain the necessary proof by contacting the Defense Finance and Accounting Services (DFAS).

Please call Lima & Associates, LLC for assistance in obtaining your tax refund!

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.

IRS Debuts New Postcard 1040 Return

At the end of June, the IRS unveiled a new draft version of the 2018 Form 1040, Individual Income Tax Return. The proposed postcard-size Form 1040 form replaces the prior version of the form as well as the Forms 1040EZ and 1040A. While some are celebrating the design as a simpler way to file, a closer look may tell a different story.

What is changing?

- There will be fewer lines as the new form has only 23 lines – that's 50 fewer lines than the 2017 Form 1040.
- There are six new schedules (Schedules 1 – 6) which replace many of the 50 lines reduced on the Form 1040.
- There are many new lines incorporated into the Form 1040 and it's six schedules to accommodate changes under the Tax Cuts and Jobs Act.

How does this affect you?

- Nearly everyone will need to file schedules with their Form 1040, even those who previously used the simple 1040EZ. The IRS website states that only "taxpayers with straightforward tax situations" will be able to skip the new schedules.
- The postcard goal is met, however there will be a lot of training and software reprogramming required.
- The postcard 1040 is still in draft form.

The proposed 2018 Form 1040 can be viewed on the IRS website at https://www.irs.gov/pub/irs-dft/f1040--dft.pdf.

Apps for Tracking Business Mileage

Every business owner, no matter how small, must keep good records. But whether it's keeping track of mileage, documenting expenses, or separating personal from business use, keeping up with paperwork is a seemingly never-ending job.

No matter how good your intentions are in January, the chances are good that by now that paper mileage log is looking a bit empty. Even worse, you could be avoiding tracking your mileage altogether--and missing out on tax deductions and credits that could save your business money at tax time.

The good news is that there are a number of phone applications (apps) that could help you track those pesky business miles. Most of these apps are useful for tracking and reporting expenses, mileage and billable time. They use GPS to track mileage, allow you to track receipts, choose the mileage type (i.e., business, personal), and produce formatted reports that are easy to generate and share with your CPA.

Here are three popular apps that help you track your business mileage (and more):

1. TripLog - Mileage Log Tracker

Works with: Android and iPhone

What it does: Tracks vehicle mileage and locations using GPS

Useful Features:

- Automatic start when plugged into power or connected to a Bluetooth device and driving more than five mph
- Reads your vehicle's odometer from OBD-II scan tools
- Syncs data between the web service and multiple mobile devices
- Supports commercial trucks including per diem allowance, state-by-state mileage for IFTA fuel tax reports, and DEF fuel purchases and gas mileage

2. MileIQ

Works with: Android and iPhone

What it does: Keeps track of mileage for business or personal use

Useful Features:

- Budget-friendly automatic mileage tracking
- Easy to categorize trips - swipe right for business trips; swipe left for personal trips
- Ability to create customized weekly mileage reports
- Premium Office 365 subscribers can log unlimited drives every month.

3. Hurdlr

Works with: Android and iPhone

What it does: Tracks mileage, as well as expenses and income streams

Useful Features:

- Tracks business mileage using auto start and stop
- View real-time finances, profits, and tax savings
- Links to financial accounts, PayPal, Uber, and others
- Creates financial reports and spreadsheets you can send to your CPA

If you have any questions about using apps that track business mileage or need help choosing the right one for your business needs, don't hesitate to call.

Connect with IRS on Your Phone with IRS2Go

Taxpayers who need tax help can simply pull out their phone and download the IRS mobile app.

IRS2Go is available to use for free on any iOS or Android device. Taxpayers can use IRS2Go to:

- Check the status of their refund. Taxpayers can check the status of their federal tax [refund](#) within 24 hours after the IRS receives an an e-filed return, or about four weeks after the taxpayer mails a paper return.

- Make a payment. The app offers easy access to mobile-friendly payment options like [IRS Direct Pay](#). This offers taxpayers a free, secure way to pay directly from their bank account. They can also make a [debit or credit card payment](#) through an approved payment processor.

- Get helpful tips and information. Taxpayers can use the app to access IRS accounts on social media, including links to helpful YouTube videos and the IRS Twitter accounts. Taxpayers can also use the app to sign up to receive [IRS Tax Tips by email](#).

IRS2Go is available in both English and Spanish and available to download from Google Play, the Apple App Store or the Amazon Appstore.

Taxpayers can connect with the IRS on their phone using IRS2Go https://go.usa.gov/xPgcG

Here's How the IRS Contacts You

Everyone should know how the IRS contacts taxpayers. This will help people avoid becoming a victim of scammers who pretend to be from the IRS with a goal of stealing personal information.

Here are some facts about how the IRS communicates with taxpayers:

- The IRS doesn't normally initiate contact with taxpayers by email.
- The agency does not send text messages or contact people through social media.
- When the IRS needs to contact a taxpayer, the first contact is normally by letter delivered by the U.S. Postal Service. Fraudsters will send fake documents through the mail, and in some cases will claim they already notified a taxpayer by U.S. mail.
- Depending on the situation, IRS employees may first call or visit with a taxpayer. In some instances, the IRS sends a letter or written notice to a taxpayer in advance, but not always.
- IRS revenue agents or tax compliance officers may call a taxpayer or tax professional after mailing a notice to confirm an appointment or to discuss items for a scheduled audit.
- [Private debt collectors](#) can call taxpayers for the collection of certain outstanding inactive tax liabilities, but only after the taxpayer and their representative have received written notice.
- IRS revenue officers and agents routinely make unannounced visits to a taxpayer's home or place of business to discuss taxes owed, delinquent tax returns or a business falling behind on payroll tax deposits. IRS revenue officers will request payment of taxes owed by the taxpayer. However, taxpayers should remember that payment will never be requested to a source other than the U.S. Treasury.
- When visited by someone from the IRS, the taxpayers should always ask for credentials. IRS representatives can always provide two forms of official credentials: a pocket commission and a [Personal Identity Verification Credential](#).

Lima & Associates, LLC will never ask you to send unencrypted personal data through email. We have portals to securely exchange information with you and encourage you to use them. We can resend the link if you need to setup your portal or can assist you in resetting forgotten passwords.

Watch out for refund scams. Refunds scams are common tactics used by cybercriminals to trick people into opening a link or attachment. This link takes people to a fake page where thieves try to steal information like Social Security numbers.

Guard Your Personal Information

Lima & Associates, LLC and the Internal Revenue Service continue to urge taxpayers to remain vigilant in protecting their personal and tax information. Scams and schemes using the IRS or tax accountant as a lure can take on many variations, so practicing personal information security is vital.

The IRS also reminds taxpayers to help protect themselves against identity theft by reviewing safety tips offered by the Security Summit, a collaborative effort between the IRS, states and the private-sector tax community.

Protect Personal Information

Treat personal information like cash – don't hand it out to just anyone. Social Security numbers, credit card numbers, bank and even utility account numbers can be used to help steal a person's money or open new accounts.

Every time a taxpayer receives a request for personal information, they should think about whether the request is truly necessary. Scammers will do everything they can to appear trustworthy and legitimate.

Avoid Fishing Scams

The easiest way for criminals to steal sensitive data is simply to ask for it. Learn to recognize phishing emails, calls or texts that pose as familiar organizations such as banks, credit card companies or even the IRS. These ruses generally urge taxpayers to give up sensitive data such as passwords, Social Security numbers and bank account or credit card numbers. They are called phishing scams because they attempt to lure the receiver into taking the bait.

Also, don't assume internet advertisements, pop-up ads or emails are from reputable companies. If an ad or offer looks too good to be true, take a moment to check out the company behind it. Type the company or product name into a search engine with terms like "review," "complaint" or "scam." The IRS urges people to never download "security" software from a pop-up ad. A pervasive ploy is a pop-up ad that indicates it has detected a virus on the computer. Don't fall for it. The download most likely will install some type of malware on the victim's computer. Reputable security software companies do not advertise in this manner.

Safeguard Personal Data in Daily, Online Activity

Taxpayers should safeguard their Social Security number. Provide it only when necessary. Occasionally businesses will request it when it is not essential.

Provide personal information over encrypted websites only. Shopping or banking online should be done only on sites that use encryption. People should look for "https" at the beginning of a web address (the "s" stands for secure) and be sure "https" is on every page of the site.

Use Strong Passwords

The longer the password, the tougher it is to crack. Use at least 10 characters; 12 is ideal for most home users. Mix letters, numbers and special characters. Try to be unpredictable – don't use names, birthdates or common words. Don't use the same password for many accounts and don't share them on the phone, in texts or by email. Legitimate companies will not send messages asking for passwords. Receiving such a message probably means it's a scam. Keep passwords in a secure place.

Set password and encryption protections for wireless networks. If a home or business Wi-Fi is unsecured, it allows any computer within range to access the wireless network and potentially steal information from connected devices.

Use Security Software

A good broad-based anti-malware program should provide protection from viruses, Trojans, spyware and adware. The IRS urges people, especially tax professionals, to use an anti-malware program and always keep it up to date.

Set security software to update automatically so it can be upgraded as threats emerge. Also, make sure the security software is "on" at all times. Invest in encryption software to prevent unauthorized access by hackers or identity thieves. Educate children about the threats of opening suspicious web pages, emails or documents.

Back Up Files

No system is completely secure. Copy important files, including federal and state tax returns, onto a removable disc or a back-up drive, and store it in a safe place. Save tax returns and records. Federal and state tax returns are important financial documents. People need them from time to time for home mortgages or college financial aid applications. These steps also can help taxpayers more easily prepare next year's tax return. If storing sensitive tax and financial records on a personal computer, use a file encryption program to add an additional layer of security.

The IRS, state tax agencies and the tax industry recently launched a public awareness campaign called Taxes. Security. Together. It provides additional safety tips for taxpayers. Also, see Publication 4524, Security Awareness for Taxpayers.

Taxpayers can find answers to questions, forms and instructions and easy to use tools online at IRS.gov 24 hours a day, seven days a week. No appointments required and no waiting on hold.

Mark your Calendar

- November 15, 2018 – Extended exempt organization returns are due.
- January 15, 2019 – 4th Quarter 2018 Estimates are due to be paid.
- January 31, 2019 – Forms W-2 and 1099 are due.

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