Inside this Issue:

p2 Tax Cuts and Jobs Act for Individuals

p3 New York State Budget Update

p4 Top 5 Best Practices to Improve Bookkeeping

SPRING 2018 SMALL BUSINESS NEWSLETTER VOL 2 ISSUE 3

Small Business Services Group

Helping Our Small Business Clients Reach Their Full Potential

TRONCONI SEGARRA & ASSOCIATES LLP

Certified Public Accountants
Business Consultants

"The taxpayer: that's someone who works for the federal government, but doesn't have to take a civil service examination."

Ronald Reagan

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Much Uncertainty Surrounds the New 199A Deduction

By Melissa S. Howell, CPA, Senior Manager

The Tax Cuts & Jobs Act signed into law by President Trump on December 22, 2017 created a new deduction called Section 199A, which allows owners of sole proprietorships, rental properties, S corporations or partnerships to deduct up to 20% of the qualified business income earned by the business. Qualified business income ("QBI") is any income of a U.S. business that is not considered to be a specified service trade or business. The 199A deduction is effective as of January 1, 2018.

Basics of Section 199A

Qualified businesses include all trades or businesses except those performing services as an employee and "specified services." A specified service is defined as any trade or business involving the performance of services in the fields of health, law, accounting, actuarial science, performing arts, consulting, athletics, financial services, and brokerage services or any trade or business where the principal asset is the reputation or skill of one or more of its owners or employees. It is this description that is providing the most uncertainty surrounding the new 199A deduction along with its application to rental property, to those taxpayers with multiple trades or businesses with both income and losses and the determination of the deduction for tiered entities.

The 199A deduction is claimed on the taxpayer's individual income tax return after adjusted gross income is determined. The 20% QBI deduction is available to both taxpayers who itemize deductions and those who claim the standard deduction if taxable income is below $157,500 for single filers and $315,000 for married taxpayers filing jointly and begins to phase-out above these thresholds. Income from a specified service business is not excluded from qualified business income for those taxpayers with taxable income under the above threshold amounts.

If your business is not considered a "specified service" trade or business, then the deduction is not limited based on the level of your taxable income, but is, however, limited to the greater of:

- 50% of the businesses W-2 wages, or
- The total of 25% of W-2 wages plus 2.5% of the unadjusted basis of qualified depreciable property.

continued on page 3…

CHANGES TO ALIMONY

The Tax Cuts and Jobs Act ("TJCA") has made important changes to the tax treatment of alimony. These changes take effect for divorces and legal separations executed after December 31, 2018.

Current Rules

Under current rules, alimony and separate maintenance payments received are includible in the gross income of the recipient spouse and deductible "above-the-line" by the payer spouse.

TCJA Rules

Under the new TCJA rules, there will no longer be a deduction for alimony payments made by the payer spouse, nor will alimony received be includable in the gross income of the recipient spouse. For divorces and legal separations that are executed after 2018, the alimony-paying spouse will not be able to deduct the payments and the alimony-receiving spouse will not include them in gross income or pay federal income tax on them.

Pre-existing Agreements

The new TCJA rules do not apply to existing divorces and separations. The current rules continue to apply to already existing divorces and separations, as well as divorces and separations that are executed before 2019. If a pre-existing agreement is legally modified, the new rules do not apply to that modified agreement unless the modification expressly states that the TCJA rules are to be adopted.

Melissa S. Howell, CPA, Senior Manager

Tax Cuts and Jobs Act for Individuals

By Maria A. Dojka, CPA, Manager

The recently enacted Tax Cuts and Jobs Act includes some significant changes for individual taxpayers, several of which are highlighted below:

- **Individual Tax Rates** – Prior to enactment of the recent tax legislation, the tax rates were divided into seven tax brackets: 10, 15, 25, 28, 33, 35, and 39.6 percent. Each year, the IRS adjusts the bracket amounts slightly for inflation. Under the new Tax Cuts and Jobs Act for tax years beginning January 1, 2018, the individual tax rates are reduced to 10, 12, 22, 24, 32, 35 and 37 percent. Without any further legislation, the reduced tax rates are set to expire after 2025.
- **Capital Gains and Qualified Dividends** – The system for taxing capital gains and qualified dividends did not change under the Act, except that the income levels at which the 15% and 20% rates apply were adjusted for inflation after 2018. For 2018, the 15% rate will start at $77,200 for joint filers, $51,700 for head-of-household, and $38,600 for other taxpayers. The 20% rate will start at $479,000 for married taxpayers filing jointly, $452,400 for head-of-household, and $425,800 for other taxpayers.
- **Standard Deduction** – The Tax Act increased the standard deduction for individual taxpayers to $24,000 for married taxpayers filing jointly, $18,000 for head-of-household, and $12,000 for all other taxpayers. The additional standard deduction for elderly and blind taxpayers remains unchanged.
- **Personal Exemptions** – All personal exemptions have been suspended under the Tax Act through 2025 reducing the exemption amount to zero.
- **Child Tax Credit** – The amount of the child tax credit doubled from $1,000 to $2,000 per qualifying child (a dependent child 16 years and under). The maximum refundable portion of the credit increased from $1,000 to $1,400. The threshold at which the child tax credit begins to phase-out increased from $110,000 to $400,000 for married taxpayers filing jointly and from $75,000 to $200,000 for other taxpayers. The Tax Act also created a new nonrefundable credit of $500 for qualifying dependents who are not qualifying children.
- **Itemized Deductions** – The Act repealed the overall limitation on itemized deductions, but imposed limitations on the following deductions: the home mortgage interest deduction was modified to reduce the limit on new acquisition indebtedness from $1 million to $750,000. The Act also limits the deduction for state and local income and property taxes to $10,000 and it repealed miscellaneous itemized deductions and home-equity loan interest through 2025.
- **Withholding** – The IRS released an online **withholding calculator** and has updated the **2018 Form W-4, Employee's Withholding Allowance Certificate** to assist individual taxpayers in updating their withholding allowances after the changes made by the Tax Cuts and Jobs Act which can be found at **www.irs.gov**.

FOR ASSISTANCE IN QUANTIFYING THE OVERALL IMPACT THE TAX CUTS AND JOBS ACT HAS ON YOU PERSONALLY, PLEASE CONTACT TRONCONI SEGARRA & ASSOCIATES.

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Much Uncertainty – cont'd

The 199A deduction was intended to give entities other than C corporations a competitive advantage. Although a C corporation may now appear to be the way to go, it is important to remember that any income distributed to its owners as a dividend is still subject to double taxation. In contrast, income earned by the owners of a sole proprietorship, S corporations or partnership remain subject to only a single level of tax at the individual level with the Act further reducing the top tax rate of 37% down to potentially 29.6%.

While the purpose of Section 199A is clear, the text as written in the Tax Act is anything but clear. The provision is riddled with exceptions and limitations, phase-ins and phase-outs, and critical but rather poorly defined terms. As a result of the uncertainty surrounding Section 199A, many tax advisers anticipate that further guidance will be issued by the IRS in the coming months.

New York State Budget Update

By Alicia R. Sears, CPA, Manager

New York State lawmakers passed the 2018-2019 budget on March 30th. Many of the provisions address changes imposed by the Federal Tax Cuts and Jobs Act. Below are a few of the highlights:

- **Employer Compensation Expenses Tax System** – This new optional payroll tax permits employers to pay in an additional payroll tax for employees earning more than $40,000 annually allowing the employee to claim a credit against their individual income taxes.
- **Charitable Gift Trust Funds** – Individual taxpayers may take an income tax credit equal to 85% of donations made to certain state-operated funds. Local governments will be allowed to establish charitable funds for education, health care, and other charitable purposes and then taxpayers will be allowed a credit up to 95% of the donation against their local property taxes.
- **New York Treatment of IRC §965 Repatriation Income** – There is no New York exemption or deduction for the mandatory deemed repatriation of deferred foreign income. Unlike the Federal law, which allows taxpayers to elect to pay the tax liability over 8 years, or in the case of S corporation shareholders, defer the tax liability until specified triggering events, New York taxpayers are required to pay 100% of the additional NYS tax with their 2017 tax returns. Late-payment penalty relief is available for impacted taxpayers.
- **Partial Decoupling from Federal Tax Reform Changes** – New York State will continue the deductibility of alimony by the payor and the inclusion in income by the payee as well as allow the deduction of qualified moving expenses. NYS taxpayers will now be allowed to itemize for state purposes even if claiming the federal standard deduction. Local real property taxes continue to be deductible for NYS even if in excess of the federal cap of $10,000 set for all state and local taxes.

ONLINE SALES TAX DEBATE REACHES SUPREME COURT

On April 18th, the U.S. Supreme Court heard oral arguments in *South Dakota v. Wayfair*, a case which may finally resolve the debate over whether state taxing authorities can impose sales tax collection requirements on remote sellers who do not have physical presence nexus in their states. The issue in question is whether South Dakota's economic nexus legislation enacted in 2016, requiring remote sellers with $100,000 in sales or 200 transactions to collect tax, should be the new sales tax nexus standard. This would replace the physical presence requirement, which the Supreme Court previously affirmed in their 1992 *Quill* decision. Given the exponential growth of online shopping, the states believe they are losing considerable tax revenue, perhaps as much as $8 to $13 billion in 2017, based on some estimates. In the wake of inaction by Congress to resolve this issue, a growing number of states like South Dakota are seeking alternative solutions to expand nexus to remote sellers, resulting in a myriad of differing laws across the U.S. While most tax practitioners initially believed the Supreme Court would side with the states and overturn *Quill,* the tone and intense questioning by some justices during oral arguments signals that this debate may be far from over. We expect the Court's decision in late June, prior to their summer recess.

Thomas E. Mazurek. CPA. Partner

Top 5 Best Practices to Improve Bookkeeping

By Anne Marie Niedzialowski,
Senior General Ledger Specialist

1. **Bookkeeping should not be underestimated**

   Accurate bookkeeping is critical to your company's overall financial health and success and becomes increasingly more valuable as your business develops and grows.

2. **Invest in the right accounting software**

   There are many robust accounting software programs available that will allow you to keep your finances organized and in-check. While a basic spreadsheet may get the job done, there's no match for the technological benefits offered by commercial-off-the-shelf software or a cloud-based accounting system, such as QuickBooks Online or Xero, which allows you to:

   - Generate insightful financial reports to aid in the management of your business
   - Create estimates and invoices that can be emailed directly to your customers
   - Track, manage and budget your monthly income and expenses
   - Streamline workflow
   - Access data from any location

3. **Take advantage of technology**

   Most financial institutions today offer transaction downloads, which can be directly imported into many cloud-based and desktop accounting systems. Countless Apps exist that provide for mobile banking, digital payment methods, digital image storage technology, as well as other add-on features that directly integrate with your accounting software.

4. **Track business income and expenses separately**

   It is always a best practice to never mix business with pleasure. Tracking business income and expenses separately from your personal finances will provide a better snapshot into the true profitability of your business. Commingling your finances will only muddy your financial picture and may result in additional hours of monthly bookkeeping.

5. **Reconcile monthly**

   Reconciling your bank and credit card statements on a monthly basis will help ensure that all transactions are properly accounted for and included in your financial statements. Accounting errors and inconsistencies have a bad habit of snowballing, unless monitored and corrected on a regular basis.

Don't let bookkeeping fall to the bottom of your to-do list! Good bookkeeping practices, completed on a regular basis, will provide you with an up-to-date financial picture as to how your business is performing and will aid in identifying what changes need to be implemented to make your business more successful. Our team can help develop and implement best practices that will streamline workflow and contribute to your company's overall financial health and long-term success.

TO FIND OUT MORE, PLEASE CONTACT US AT TRONCONI SEGARRA & ASSOCIATES.