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The Remembering the Summer of 2018 Newsletter!

As has been the trend of the past several years, my first newsletter has been coming out later and later. Part of it may be the reluctance of admitting the summer is really over but the other part was I was hoping we would finally get some clarification on the one really unclear issue of the new tax law. But, I will go into later. As is usual I start with some personal notes especially in the first of that year's newsletters. There are two this time.

The first, I would like to go over what we do with our office outside of tax season. As we have done for a long time, we are not needed as much so therefore we are in the office a lot less in off season. The way Dorothy and I try to work it is we are the office most (not all but most) mornings. Very often we will take turns being there. Sometimes we are in the office in the afternoon but those are rare. So, the reason for putting this in the newsletter again is if you want to reach us by phone, or if you want to sit down and talk the chances are much better if you try all of the above early in the day as opposed to later. The workload is much less for us in the summer and fall and we can get most of it done by only being in a few hours and to be honest after April we have earned it.

The second, personal issue is as we fore warned in our newsletter last year our prices went up for the first time in nearly nine years. Our reason for that was increase cost we were facing. Yes, cost for software, supplies, and even rent all went up all along but that was not the reason prices went up. It was for the cost of self-employment, healthcare which is now close to 10 times what it was eight year ago. That alone was our killer. As I mentioned in those newsletters some of you might have said "but my fees went up in that timeframe" and you were right but it was not because of anything we did. It was due to increase reporting requirements and Obamacare. About 80% of the returns we do get affected by these changes in the tax law which caused more work and therefore higher fees. While it is too early to tell it does appear the new tax law will do just the opposite. What Trump has done is eliminate most of the deductions that caused Alternative Minimum Tax to be charged on a tax return. This is a complex calculation which can change returns we do for you in future years too. All that may be gone and the fees that went with. Also, many more people will no longer itemize therefore eliminating those fees. It is very likely our overall fees will be going down because of the less work. What we don't know is how the new exemption credit will be handled. If it will be done like the old child tax credit then there will be no more work required but as of now we are unsure. There will be additional charge for anyone that has any kind of a business. There is a new deduction in this new tax law but the additional work required will result in a much lower tax so the additional fees will be well worth it. When the forms finally come out in January will well only then see what needs to be done but our outlook for tax season 2019 is lower fees to you due to the new tax law.

The One Big ? Mark

The tax law changes passed (way too quickly) last year eliminated or reduced the availability of many items that were formerly deductions. Most confusing were the rules for business meals. In fact, it was so confusing even the gurus that make their living going around and teach all of us that do your tax returns couldn't agree on what the new law said. What we all expect to see what are known as technical corrections (TC) to clarify the issue. These TCs are common with new laws and are really needed to figure out what everything means in the real world. I had hoped just a TC would come about by now but alas nothing as of yet. Let me tell you what one of the best of their gurus has "INTERPATED" and yes, it is their interpretation not tax law. The interpretation is a good one here and it based on the information thus far put out by congress but it is a guess none the less. Under old law a meal and / or entertainment expense was allowed if the taxpayer could establish the expense was related to his business and the intent was to make money as a result. The deduction was limited to 50% of the cost. Now it is clear entertainment expenses are no longer allowed no matter what. This means all sporting events, theater tickets, golf expenses (doesn't Trump have a few courses?) nightclubs etc. are all out. But what about meals themselves-the heads of companies wanting to discuss an important business strategy for the department and you want to get out of the office to do it so nobody will interrupt you and you go to the local restaurant to conduct this very important, very related to your livelihood conversation. The new tax law does have the wording of "business meals" in it. It does this by adding to the law a requirement the taxpayer or his agent (whatever in the world that means) must be present. BUT the same law turns around and eliminates the requirement of directly related for business purposes. While this may sound good at first glance-an elimination of anything in tax law that makes something a requirement before you can deduct it- but the problem here was that very part of the law allowed that expenses to qualify for a deduction under another code section. Without that standard, there is nothing to qualify which means there can be no deduction. And for you employees don't go to sleep on me yet because for all those times you took a client out on the corporate credit card and had it be considered tax free to you-if this is not considered a legit deduction because of the elimination of that standards-that lunch will show up on your W-2 subject to withholding and payroll taxes. Confusing- you bet-the American Institute of CPA's published what they think the new law says about meals. The AICPA then asked the IRS for conformation on their interpretation. None was forthcoming and the IRS has still not responded. And if you're in an audit-and you use the AICPA's statement as support for your deduction, the IRS agent's uncontrollable laughter should be your biggest clue on just how much weight that is going to carry.

So, what may be deductible? The new law kept in tack for the part two sections of the code. The first -supper being brought in for employees so everyone could work overtime and eating facility located on the company premises That second deduction is now subject to a 50% deduction but it too will be eliminated as of 12/31/25. It appears they are going to give companies a chance to wind this down. There are other items exempt from the new law. Christmas parties, annual picnics, swimming pools and work out facilities but there is a catch-all of this must be for the benefit of employees ONLY-not customers and if the employee is considered a highly compensated employee under new tax law then it has to go into their income. There are a handful of other exemptions like stockholder meetings but my advice to all of you is still keep track of all your meals. It will most likely not be until tax time before we know what to do and if you have the info we still might has a chance to do something with it. I have spent a lot of time here- so much that I don't have much room for anything else but this is an issue that affects most of you.

Time to Unwind

I want to go over a strategy called unwinding. This is one of the rare cases you can have all the facts before you decide in tax law. Let's say you converted your IRA to a ROTH IRA. By doing this you do pay tax on the IRA. Let's also say the new ROTH has not done so well and actually has gone down in value. You have until October 15th of the following year to unwind the conversion and make it so it never happened. Then you can do the IRA to Roth conversion all over again BUT pay less tax because the account went down in value. Just something to keep in mind.

A couple of Quick Notes

Again, two items available but not well known. The first has to do with veterans. For any veteran that received disability severance payments for the DOD there is a tax credit available for those payments due to a law signed by Obama just before he left office. The DOD is supposed to notify the vets they will be able to claim this but the refund is to be claimed on an amended 1040X tax return which is where I come in. If you or anybody you know got that letter and need help getting that credit just let me know. AND there is a new credit for employers for paying family and medical leave. If any of you remember the credit for certain employers paying health insurance cost for the employees, this credit is almost as complex. The reason I am putting this in the newsletter is if you or your company wants to claim the credit you must have a written policy in place to be able to qualify NOTICE 2018-71 just came out to give specifics on this. If you have a benefits administration work with them to get this done. If you want a breakdown of the notice let me know and I will get you one. Credit is supposed to be a decent credit.

Bad IRS

Often at the end of the newsletter I tell a story of how the IRS has abused its power. The reason for that is they do it all the time. I again have cases when courts have slapped IRS's hand for violating their own procedures. So, if you get a notice-get a copy to me ASAP. The majority of the time it is a mess up by the IRS and that is something we can take care of for you.

And Finally, VC

Guess what the new #1 enforcement action by the IRS is for 2018. They are going after holders of virtual currency-you know BITCOIN etc. If you think you have been operating under the radar-guess again.

That's all for now!

-Tom & Dorothy