

Important Tax information
Updated for 2018 Tax year*
By Berne Tax Service
518-872-1477 richard@bernetax.com

2018 is a year of major tax changes for personal and business. Many taxpayers will see a reduction in taxes – some have already seen their withholding decrease. Standard deduction has increased, personal exemptions eliminated but dependent credits increased. Many tax rates have decreased and new deductions for businesses.

NYS has also made changes and several items will be handled differently than on IRS return. You may be able to itemize on NYS even if you can't on federal!

In many ways when you look at the new law, taxes have gotten more complicated!

Important NYS changes/differences from IRS

1. No limitation of \$ 10,000 on taxes– can deduct all RE taxes when itemize on NYS
2. Medical expenses in excess of 10% of AGI deductible for NYS
3. Mortgage interest is not limited/changed for NYS
4. All Misc. 2% deductions are still allowed for NYS – Including Employee business expenses, investment expenses, other work related!!
5. Alimony rules have not changed for NYS.
6. Moving expenses are still allowed on NYS returns
7. NYS will not allow 529 plan funds to be used for K-12 school, even though IRS now allows.
8. NYS created a State-Operated Charitable Gift Trust Fund for donations for purposes of improving health care and education in NYS. Any donation by taxpayer may claim a NYS credit of 85% of donation. IRS has passed legislation that may affect deducting this donation on the federal return.

9. Local Charitable funds have been authorized by NYS for local governments and schools to accept donations in lieu of taxes and get property tax credits to avoid the \$10,000 tax limitation imposed by IRS.
10. NYS is not allowing the new IRS 199A deduction that can give businesses a 20% deduction.

IRS has made the new 1040 form look simpler but that really is not the case. Even though the main form is shorter, all the other information that was on the main 1040 is now on 6 new schedules:

1. Sch 1 – Additional income and adjustments to income
2. Sch 2 – Tax
3. Sch 3 – Nonrefundable credits
4. Sch 4 – Other taxes
5. Sch 5 – Other payment and Refundable Credits
6. Sch 6 – Foreign Address and Third-Party Designee

New Section 199A Deduction for Businesses and Passthrough Entities

If you operate a business – Schedule C, F for personal returns or have passthrough income from a Subchapter S corp. or Partnership, you may be entitled to a new 20% deduction. **Note this can apply to Rental income too if you actively manage the property(s). NYS does not allow this deduction.**

1. If your Taxable income is under 157,500 or 315,000 for MFJ, you could get the lessor of 20% of:
 - a. QBI = Qualified Business Income
 - b. Taxable income less capital gains
2. If your taxable income is between 157,500 – 207,500 or Joint 315,000-415,000, then other limitations also apply:
 - a. Wages (50%) or Wages & Qualified Property (25%)
 - b. Certain specified services – deduction is phased out:
 - i. Health

- ii. Law
 - iii. Accounting
 - iv. Actuarial
 - v. Performing Arts
 - vi. Consulting
 - vii. Athletics
 - viii. Financial or Investment Services
 - ix. Others that are based on reputation or skill
3. Taxable income greater than 207,500 or 415,000 MFJ, no deduction is allowed if income from Specified services listed above and limits apply for other industries based on wages and Qualified property.

Tax Cuts and Jobs Act 2017 (HR 1) has made major changes to the Internal Revenue Code.

✓ **Changes with this new law – effective for 2018 to 2025 unless otherwise noted:**

- Changes in tax brackets and rates which result in lower rates for many individuals
- Personal Exemptions for taxpayer, spouse, and dependents has been **eliminated.**
- Standard deduction increases: MFJ - \$ 24,000, Single \$ 12,000 **NYS standard deduction for 2018: MFS 16,050 and single \$ 8,000. NYS allows an exemption of \$ 1,000 for dependents other than taxpayer/spouse.**
- AMT still applies to individuals, but exemption amount has increased.
- Child tax credit increases to \$ 2,000 per child with \$ 1,400 being refundable. Must have SSN.
- Temporary \$ 500 nonrefundable credit for other dependents. This credit is not refundable and can be used for dependent with ITIN or ATIN.
- Student Loan Interest, American Opportunity Credit, and Lifetime Learning credits are still allowed.
- Section 529 Plans: now up to \$ 10,000 per beneficiary can be used for tuition expenses for public/private/religious elementary or secondary school. **NYS plan does not allow.**
- Medical expenses – must exceed 7.5% of income for 2018, then must exceed 10% starting in 2019.
- Charitable donations still allowed

- State and Local taxes deduction as itemized deduction is capped at \$ 10,000 – including state and local income tax, sales tax, or real property taxes. Foreign property taxes are not deductible. Property taxes on investment property or business property continue to be deductible (Schedule C, E, F still allowed).
- Mortgage interest is capped on \$ 750,000 mortgage for 1st or 2nd home issued on or after 12/15/17 and loans of \$ 1 million prior to that date. **Interest on home equity loans – depends on how proceeds was used – may not be deductible if not used for home improvements.**
- Casualty losses on personal property no longer allowable unless in special federal disaster area.
- All other **Misc. itemized deductions** subject to 2% floor – such as employee work related – dues, home office, meals & entertainment, transportation **are no longer allowed.** Also eliminated are investment expenses.
- Teachers deduction of \$ 250 is still allowed.
- Moving expenses no longer deductible except for the military.
- Wagering losses still allowable up to winnings if itemize.
- Alimony – starting with new divorce agreements in 2019, alimony is no longer deductible or includable in income. An old agreement could be modified to include this new law. **NYS does not follow these new rules.**
- Affordable Care Act – **starting in 2019 no penalty for individuals not having health insurance.**
- Corporate tax rates reduced to flat 21% for all tax brackets
Permanent change
- Corporate AMT repealed. **Permanent change**
- **New 20% deduction Sec 199A** for Non-corporate taxpayers who have a domestic qualified income from partnership, S corporation, or Sole proprietorship. Limitations apply as explained above.
- **NOL's** – losses deducted limited to 80% of taxable income. The 2-year carryback is repealed except for farming. Carryforward indefinitely.
- **Excess business losses for 2018-2025 for non-corporate taxpayers are limited to net of 500,000 for Joint and 250,000 other filing status.**
- Bonus Depreciation – increased % for property acquired after 9/27/17.
- **Farmers** – New Equipment can now be depreciated in 5 years rather than 7. Used farm equipment must still use 7 years.

- Entertainment expenses no longer deductible, but 50% of meals is allowed for expenses associated with operating a business such as business travel. 50% of Meals for entertaining clients is still deductible but not other entertainment expenses. The cost of holiday party for employees is still 100% deductible.
- No change in rules on sale of personal residence
- Kiddie tax rules changed. Unearned income is taxed at the Estates and Trust tax rates – reduced rates for Capital gains and qualified Dividends. Child's earned income – will get standard deduction of \$ 12,000 and use single tax rates.
- **Increases the Federal estate tax exemption to \$ 11,200,000.**
- New Credit for employers who provide paid family and medical leave to employees for 2018 and 2019. Credit is equal to 12.5 to 25% of paid family and medical leave.

OTHER TAX INFORMATION

1. Social security benefit checks will increase by 2.8% in 2019. Earned income subject to Social security tax is \$ 132,900 in 2019. If you are below the full retirement age (FRA) for 2019, you can earn \$ 17,640 without losing any benefits.
2. **Did you receive an IRS or NYS notice?** It is important that you respond by the **due date** on any letter from IRS or NYS or it will be difficult to protest the proposed tax change. It is recommended that you contact your tax preparer before paying or responding.
3. **Phone or Email scams** – IRS or NYS do not initially contact taxpayers by telephone or email if there is a problem. You will receive written correspondence. **Do not** respond to email or telephone requests unless you are sure it is the official agency.
4. Most taxpayers are required to be covered by health insurance in 2018 or be subject to a penalty. You may receive a form **1095** which proves you have health insurance – give that form to your preparer. **There will no longer be a penalty for not having health insurance starting with 2019 tax year.**

5. Is your dependent child required to file a return? A NYS return is needed if child makes over \$ 3,100. IRS requires for unearned income of \$ 1,050 or more. **Be sure that a child that is still your dependent does not claim themselves** or it will create a problem when you file your return.
6. Tax exempt interest – not all funds or bonds are exempt from NYS Tax. Even funds labelled as NYS may not be 100% tax exempt for NYS so you should include any information you have on % exempt for NYS.
7. **Are you an active Volunteer Fireman or Ambulance worker? If so, you are entitled to a \$ 200 credit on NYS return.**
8. Charitable contributions of \$ 250 or more require a receipt from the charitable organization. Contributions under \$ 250 require a cancelled check or receipt from the organization. For non-cash contributions such as clothing, valuation guides are available on web-sites such as The Salvation Army. You should also get a stamped receipt from the organization for these non-cash donations.
9. **IRA Contributions.** The maximum contribution is \$ 5,500 in 2018 but increases to \$ 6,000 for 2019. If you are 50 or older, an extra \$ 1,000 can be contributed. A tax credit is also available for low income taxpayers for IRA or pension contributions. Simple plan contributions increase to \$ 13,000 for 2019.
10. Did you turn 70.5 years old during the tax year? **After this age, you must take a minimum withdrawal annually from IRA or 401k retirement accounts or will be subject to large penalties.**
11. The annual **gift** exclusion is \$ 15,000 for 2018 and 2019. **A gift tax return is required to be filed if you give more than the annual exclusion to one person in a year.** The federal **estate** exclusion **increased to \$ 11,200,000 for 2018.** The NYS estate exclusion is \$ 5,250,000 for deaths after 4/1/17 and before 1/1/19 and then will be the same as the Federal exclusion.
12. ***Do you have a foreign bank account or foreign assets? If so, it is required to be disclosed on your income tax return or **large penalties** may apply. Special foreign reports may be required to be filed. **The FBAR report is now due 4/15.**
13. **NYS Sales Tax** – If you make any purchases from a company that does not collect sales tax, such as on the internet, you are required to pay any sales tax due on your NYS income tax return.
14. Tax records should be maintained a minimum of 3 years after the return is due or filed, whichever is later. Business records should be kept for at least 7 years.
15. Are you a business that is required to collect sales tax? Be sure you are registered as a sales tax vendor with NYS or penalties will apply.

16. Businesses: If you make payments to any unincorporated subcontractor for services or pay rent of \$ 600 or more, then a 1099-misc form must be issued by 1/31. Form W-9 should be used to obtain taxpayer id #. Penalties can apply if the required 1099's are not filed by 1/31. **Penalty can be as high as \$ 270 per 1099 if not filed.**
17. Do you own a LLC? NYS requires that the LLC form and filing fee be paid by 3/15.
18. Do you have good business records? It is best to have a separate business account (required for some companies such as corporations and partnerships). All income and expenses should be supported with invoices and other source documents and recorded in a ledger. Reconciliations should be done to you bank statements, credit card statements, sales tax returns, and payroll returns.
19. The business mileage rate for 2018 was .545 cents per mile. **Reminder:** A daily mileage log is required to be maintained to document personal and business miles. You should also mark down the odometer reading on the **first and last day** of each year. Your preparer needs # of business miles, # of commuting miles, and # of other personal miles. Corporations & Partnerships must use actual expenses if the company owns the vehicle. Employees can be reimbursed the mileage rate for use of personal vehicles.
20. **Is your activity a Business or Hobby?** The goal of the business must be to make a profit, or the deductions may be limited.
21. Tax provisions expired as of 12/31/17
- a. Nonbusiness energy credits
 - b. Income exclusion for discharge of principal residence debt
 - c. Mortgage insurance premium deduction
 - d. Domestic Production Activities deduction – Section 199 – DPAD
 - e. Deduction for Qualified Tuition (credits still allowed)

*Information based on Berne Tax Service's interpretation as of the date this document was prepared. New tax laws can change these facts and requirements.