

Monthly Newsletter

November 2018

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Coleman & Associates Now Accepts Zelle

We are excited to now be able to offer QuickPay with Zelle to our customers. Zelle is a fast, easy, and convenient way to pay your bills. Use officemanager@colemancpas.com to remit your payment.

What if you don't bank with Chase? No problem. Non-Chase customers can sign up with their bank's person-to-person payment service or visit www.zellepay.com for more options. In addition to Chase, Zelle members include major U.S. banks such as Bank of America, Wells Fargo, U.S. Bank and many more. Visit www.zellepay.com to learn more.

5 Annual Tax Essentials

The more things change the more they stay the same. This is especially true when it comes to reviewing your tax situation. Mark your calendar to review these essential items each year to ensure you are not missing something that could cause tax trouble when you file your tax return:

1. **Required minimum distributions**

If you are 70½ or older, you may need to take required minimum distributions (RMDs) from your retirement accounts. RMDs need to be completed by Dec. 31 every year after you turn the required age. Don't forget to make all RMDs because the fines are extremely hefty if you don't – 50 percent of the amount you should have withdrawn.

2. **Your IRS PIN**

If you are a victim of IRS identity theft you will be mailed a one-time use personal identification number (PIN) as added security. You can expect to receive your PIN in the mail sometime in December. Save the PIN as it is required to file your Form 1040. If you would like to sign up for the PIN program, you can do so on the [IRS website](http://www.irs.gov). Note that once you are enrolled in the program, there is no opt out. A PIN will be required for all future filings with the IRS.

3. **Retirement Contributions**

You may wish to make some last-minute contributions to qualified retirement accounts like an IRA. This can be \$5,500 for traditional or Roth IRAs plus an additional \$1,000 if

you are 50 or older. Contributions to traditional IRAs need to happen by April 15, 2019 to be deducted on your 2018 tax return.

4. **Harvest Gains and Losses**

Profits and losses on investments have their own tax rates from 0 percent to as high as 37 percent. Knowing this, make plans to conduct an annual tax review of investment moves you wish to make. This includes:

- Understanding investments held longer than one year have lower tax rates as long-term capital gains.
- Trying to net ordinary income tax investment sales with long-term investment losses.
- Making full use of the annual \$3,000 loss limit on investment sales

Timing matters with investment sales and income taxes, so having a year-end strategy can help lower your tax bill.

5. **Last-Minute Tax Moves**

While your last-minute tax move opportunities may be limited, here are a few ideas worth considering:

- Make donations to your favorite charities to maximize your itemized deductions.
- Consider contributions of up to \$100,000 from retirement accounts to qualified charities if you are older than 70½.
- Make tax efficient withdrawals from retirement accounts if you are over 59½.
- Delay receipt of income or accelerate expenses if you are a small business.
- Take advantage of the annual \$15,000 gift-giving limit.

Understanding your current situation and having a plan will make for a smooth tax filing process and maximize your tax savings.

Don't Let a Disaster Derail Your Business

With the recent frequency of hurricanes, earthquakes, tornadoes, floods and wildfires, it's worth reviewing ideas to ensure your business can survive if it faces its own disaster. Here are some steps you can take to create a disaster plan for your business:

- **Identify your exposure.** The first step is to conduct an evaluation of your business to identify possible threats. Threats will vary by business depending on geography, industry, size and other factors. Once the threats are identified, create lists of risks your business would face under each type of threat.
- **Mitigate where possible.** Once you understand your business risks, brainstorm steps you can take to mitigate your exposure. For example, if loss of data is a common risk, implementing an off-site backup system might be a good idea. The more you can minimize risks on the front end, the quicker you can get back to normal operations after a disaster strikes.
- **Create a disaster plan.** Decide in advance what steps you and the business will take if a disaster happens. This will include things like communication, medical considerations, evacuation routes, stay-in-shelter plans, and equipment protection. The Federal Emergency Management Agency (FEMA) put together a [business information booklet](#) to help you consider all factors.

- **Test your plans.** Once your plans are in place, test as many of them as you can. These tests will help you identify potential holes in your plans and serve as a great way to communicate the processes to your employees. Going through the motions in a test environment will increase your chance of success if you experience a real emergency.
- **Understand tax deductions.** If you incur losses from a disaster, there are many factors that go into how the losses are deducted on your taxes. Some of the considerations are insurance proceeds, basis adjustments, disaster classifications and improvement capitalization. Set up a meeting to discuss what is best for your situation.

Disasters are often unavoidable, but having a plan in place before they hit can reduce the impact they have on your business and employees.

IRS Audits Continue to Focus on Small Businesses

The IRS continues to focus their audit activities in key small business areas. The wise business owner is well advised to be able to defend the following five areas to keep the IRS at a comfortable distance:

- **Business or hobby?** Be ready to provide proof your business is truly a business and not a hobby. Those who fail in the eyes of the IRS can have their expense deductions severely limited, while still required to report the income. Make sure you can answer and provide documentation for these four questions:
 - a. What is your profit motive?
 - b. Are you an active participant in the business?
 - c. Are you conducting the activity in a business-like manner?
 - d. What expertise do you have in the service or products your business provides?
- **Reasonable shareholder salary.** S corporations are in the unique situation where some compensation is excluded from payroll taxes. Many businesses take this too far. The IRS is looking closely at businesses who avoid paying a reasonable salary in order to lower their Social Security and Medicare bills. When determining salaries for shareholders, consider their experience, duties, responsibilities and time devoted to the business. Once you have a picture of their ongoing contributions to the business, research comparable positions and salary ranges to pinpoint a fair salary. Save your findings and calculations as backup to provide in the event of an audit.
- **Contractors or employees?** Make sure consultants and other suppliers are not employees in disguise. The IRS looks at how much control you have over the work being done – the more control you exert the higher likelihood you may have an employee versus a contractor. Penalties can be very steep if the IRS decides your consultant is really your employee. If in doubt, ask for a review.
- **Expenses for meals and entertainment.** The IRS is now disallowing any entertainment deductions, even if there is business conducted before or after the event. That means business meal documentation is now more important than ever and should include receipts, who attended the meal, and the business purpose of the meal. Bringing food in for business lunches rather than going out is a safe way to show business intent. If you have an event with both entertainment and food included, get two receipts - one for the entertainment and one for the food.

- **File your Forms W-2 and Forms 1099.** Don't forget to file all required 1099s and W-2s. Most of them are due on or before Jan. 31. The IRS is penalty crazy in this area with up to \$270 per missing or incorrect form.

As always, should you have any questions or concerns regarding your situation please feel free to call

This newsletter provides business, financial, and tax information to clients and friends of our firm. This general information should not be acted upon without first determining its application to your specific situation. For further details on any article, please contact us.