Coleman&Associates
Fully Integrated Tax, Accounting & Financial Services

Monthly Newsletter

February 2018

Tax filing reminders

- **February 28 –** Payers must file most other Forms 1099 (except certain Forms 1099-MISC due Jan. 31) with the IRS. (April 2 if filing electronically.)

- **March 15 –**
    - 2017 calendar-year S corporation income tax returns are due.
    - 2017 partnership returns are due.
    - Deadline for calendar-year corporations to elect S corporation status for 2018.

Organizers have been created and mailed

1040 Organizer was sent to your Coleman Portal or printed last week.

Coleman Portal users received an email on January 26th informing you that the Organizer was available. The email was from info@colemancpas.com.

Paper Organizers were mailed on January 27th.

Check out our updated website!

Coleman & Associates has refreshed and updated our website. We are excited to highlight some key changes and improvements.

Client Center is moved to the upper left corner. This is where you log in to your secure Coleman Portal to find archive copies of your tax returns or send us files via File Exchange.

Pay your invoices via our website with the Make A Payment button in the upper left corner of every page. This secure payment gateway is a convenient way to pay your invoices.

Visit our Blog. Did you know that we post to our blog each week? You will find useful business, individual and estate tax information in every post.

The Client Resources page has links to lots of useful information. Here are a few highlights:

- Go Mobile - Would you like to access your Coleman Portal via your phone or tablet? Links to download the apps can be found here.
- Refund Tracker is one source for IRS and all states!
- Client Forms includes common IRS and state forms, instructions on How to use your Coleman Portal, and much more.

Please check out the new website at www.colemancpas.com and let us know what you think!

Meals and entertainment under the new tax law

Prior to the TCJA, taxpayers generally could deduct 50% of expenses for business-related meals and entertainment. Meals provided to an employee for the convenience of the employer on the employer's business premises were 100% deductible by the employer and tax-free to the recipient employee.

Under the new law, for amounts paid or incurred after December 31, 2017, deductions for business-related *entertainment* expenses are disallowed. This applies to taking clients out to lunch, dinner or drinks, not just events like hockey games or theater tickets.

Meal expenses incurred while traveling on business are still 50% deductible, but the 50% limit now also applies to meals provided via an on-premises cafeteria or otherwise on the employer's premises for the convenience of the employer. After 2025, the cost of meals provided through an on-premises cafeteria or otherwise on the employer's premises will no longer be deductible.

New 2018 capital expense rules

There are many provisions in the tax reform bill passed in late 2017 designed to benefit small business owners. There are also a variety of new tax tools affecting how small businesses account for deducting the cost of capital purchases under the new tax law. Here's what you need to know:

Tool #1: Section 179 deduction

The new law increases the amount of business property purchases that you can expense each year under Section 179 to $1 million (from $500,000 previously). Normally, spending on business property (machines, computers, vehicles, software, office equipment, etc.) is capitalized and depreciated so that the tax benefit is spread out slowly over several years. Section 179 allows you to get the tax break immediately in the year the property is placed into service.

Tips:

- ✓ There is an eligibility phaseout for Section 179 that ensures it's only used by small businesses, but that was also raised to $2.5 million (from $2 million) by the new law. If you spend more than $2.5 million on business property in total during the year, your ability to use the $1 million Section 179 deduction is reduced dollar-for-dollar above that amount.
- ✓ Section 179 deductions can be used on both new and used equipment.
- ✓ You can now use Section 179 on property used to furnish lodging or in connection with furnishing lodging (such as rental real estate). It also includes improvements to nonresidential real estate assets such as roofs, heating and air conditioning, and alarm systems.

Tool #2: Bonus depreciation

Bonus depreciation limits (also known as first-year bonus depreciation) are also improved under the new law, but for a limited time. Bonus depreciation is similar to Section 179 and allows you to immediately expense capital purchases rather than depreciating them over several years.

Under the new law, first-year bonus depreciation increases to 100 percent of the qualified asset purchase price for the next five tax years (starting in 2018) and can now be applied to the expense of purchasing used property as well as new.

Tips:

- ✓ Bonus depreciation is typically used on short-lived capital investments (with a 20-year or less useful life) such as machinery, equipment and software.
- ✓ Bonus depreciation had been only for purchases of new equipment, but can now be applied to used equipment as long as you place it into service at your business during the tax year.
- ✓ The allowable bonus depreciation starts to decline after 2022. It falls to 80 percent in 2023, 60 percent in 2024, 40 percent in 2025 and 20 percent in 2026.

Remember, though tax reform gives you expanded tools to accelerate depreciation, it may not benefit you to use them in every case. Sometimes it's better to use the standard capitalization and depreciation tax treatment. These tax benefits do not change the amount a capital purchase can be expensed – only the timing. Calculating whether your business will benefit from these revamped expensing tools can get complicated, so give us a call if you need assistance.

Tips for when your employees are family members

Working with family can be a pleasure. It can also be a pain, especially if you have to terminate a family member's employment. Here are tips to help you ease the strain of mixing your family and employee relationships.

Hire for the right reasons. Make your hiring and firing decisions based on the skill sets needed to keep your business operating effectively. Hiring your son because he's struggling to find a job is not a good business reason for bringing staff on board.

Set clear expectations. Communicate the job's performance requirements to your family member right from the start. Clearly define company policies for promotion, compensation and termination. Make it plain that unethical conduct will not be tolerated.

Avoid nepotism. Nepotism is our human habit of treating family members more favorably than others. Keep in mind that your non-family employees will be hypersensitive to any favoritism you show to relatives.

Document performance. Throughout your family member's tenure, maintain a detailed personnel file that tracks behavior resulting in disciplinary actions. In the unfortunate case of a necessary firing, a well-documented file will provide a narrative record that lays out your reasons and clearly communicates the evidence leading to your decision.

If you have to fire, keep it professional. Set a formal termination meeting. You may want to involve a direct supervisor or a human resources professional to ensure that your company is appropriately represented and to prevent the conversation from lapsing into emotional arguments.

The bottom line: Adhere to formal business standards and communicate in a professional, businesslike manner with your related employees.

Taxes and virtual currencies: What you need to know

Virtual currencies are all the rage lately. Here are some tax consequences you must know if you decide to dip your toe into that world.

The IRS is paying close attention

The first thing to know is that the IRS is scrutinizing virtual currency transactions, so if you live in the U.S. you'll have to report your transactions in Bitcoins and the like to the IRS. Despite some early misconceptions, virtual currency transactions can be traced back to their owners by governments and other cyber sleuths.

If you decide to use or hold virtual currencies, carefully report and pay tax on your transactions. Act as if you are going to be audited, because if you don't, you just might be!

It's property, not money

Note that the IRS doesn't consider Bitcoin or other virtual currencies as money, because they aren't legal tender. Instead, they are considered property. That means that if you are paid in Bitcoin, you will have to report it as income based on its fair market value on the date you received it.

And, if you sell Bitcoin, you have to pay tax on your gain using the cost (basis) of when you received it. The IRS has said that if Bitcoin is held as a capital asset, like a stock or a bond, then you would pay capital gains tax. Otherwise, if it is not held as a capital asset (for example if it is treated as inventory that you intend to sell to customers), it would be taxed as ordinary income.

Be aware of the risk

In addition to the increased oversight by the IRS, virtual currencies are at risk of virtual theft with no recourse to a government agency like the Federal Deposit Insurance Corporation, which insures U.S. bank balances. Do your research on storage and security before you invest. And if you need help with any tax questions related to virtual currency, don't hesitate to call.