HOLIDAY HELLOS!!!

2019

TAX GREETINGS AND YEAR END STRATEGIES

Greetings –

With the end of the year close at hand, all of us at the tax office wanted to wish you and your families the very best holiday season and pass along some important last minute tax reminders, we hope will help put a positive spin on what has amounted to be a historically complex tax year.

First, extra rounds of eggnog or any other highly spiked nondairy alternative, the 2018 tax season was by far one of the most difficult since the last round of big tax changes in 1986. Many saw larger tax bills due to under withholding issues, and the loss of state and local taxes deductions. Thankfully, Congress has been busy with other things, so not much has happened legislatively to change the tax picture for 2019. However, a new W-4 form was introduced to help you calculate how much to withhold from your salary, sadly the form is so convoluted it reminds us of the joke about how many IRS agents does it take to change a light bulb. One, but you need a dozen to amend it. California legislators on the other hand adopted a health insurance mandate and a very strict interpretation of which employees can be counted as private contractors, with substantial penalties for miscalculation. In other words, if you are a private contractor or hire others as private contractors it's important we discuss California AB5 with you.

On a lighter side, if you are looking for a holiday gift idea and want to help combat climate change, as well as help Mother Nature recover from all the extra paper consumption from 2018's changes to the tax code, the Swiss Federal Institute of Technology believes planting trillions of trees is the best option. You can give a friend/family member the gift of a planted tree. Or if you are into yoga, the newest YOGA DOGS Calendar for 2020.

- https://www.plant-for-the-planet.org/en/support/tree-voucher
- https://www.yogadogz.com/

IMPORTANT LAST MINUTE REMINDERS

- December 31, 2019 is the last day to max out your employer sponsored 401(k), take your RMD from retirement if you are 70 ½ or older, mail out checks for late deductions or charge that extra deduction on a credit card and pay for it later
- January 15, 2020 is the #4 or catch-up due date for those who pay quarterly estimated taxes
- January 31, 2020 deadline for issuing contractors 1099-misc forms
- March 16, 2020 is the due date for Partnership and S-Corporation
- April 15, 2020 is the due date for Individual and C-Corp tax returns and contributing to your Traditional or a ROTH IRA
- October 15, 2020 is the due date of extended tax returns to contribute to a SEP IRA or Solo 401k

Below in this email is a more comprehensive list of Tax Savings Strategies to consider.

S-Corporations don't forget to gross-up Officer W-2's for Health Insurance and have that accountable plan in place for reimbursements that benefit your taxes. Contact Richard for guidance on your business entities; Partnership or Corporate and LLC requirements. S's and P's due March 16, 2020.

APPOINTMENTS:

By early January we will email your Pre-Assigned Appointments if you typically come in.

Don't hesitate to be proactive and give us a call if some planning before the year-end is needed, to improve your appointment position, or to make an appointment if you did not meet with us last year.

ORGANIZERS:

By mid January we will upload your Engagement Letter and Tax Organizer to SmartVault, see the Safety section below. If you would like the Organizer mailed or emailed directly, please contact admin@taxofficesf.com.

TRANSITIONS:

Steve Axelrod our venerable founder est. 1973 (whose jokes help us get through the stress of the tax season!) has handed off administrative responsibilities and ownership but continues to meet, educate and consult with clients on tax matters and reviews the firm's tax returns and mentoring the Staff.

This is all part of a gradual and well-earned transition of ownership and responsibility to Richard Snow, who has been with Steve for 20 years and in business over 40 years.

Our soon to be launched new website will be easier to navigate for simple tasks, like making online payments with the Federal and State agencies, and we will be introducing a Community Billboard where you can offer and promote your services to our clientele. We are still www.TaxOfficeSF.com but have made it a little simpler by adding www.TOSF.com

STAY SAFE:

Here's a reminder; the IRS never calls taxpayers. Social Security office never calls people. The California Franchise Tax Board and other state tax agencies never call people. If you get a robo call or a personal call from any of the above hang up immediately. Here's a link to known IRS scams https://www.irs.gov/newsroom/tax-scams-consumer-alerts

WITH YOUR DIGITAL SAFETY IN MIND:

We encourage the use of a client portal called **Smart Vault** not only for your protection but also easy access to prior years' information as you might need it. We invite you to set up your own login/password and upload your tax documents and then count on them being accessible indefinitely, along with copies of your tax returns.

If you did not take advantage of **Smart Vault**, and would like to create an account please email your tax preparer (below) or admin@taxofficesf.com for a link or search old email for your initial invitation.

INTEGRATED SERVICES:
Yes, we do what we do best – tax returns for wonderful people and interesting small businesses. Yet we are more than a tax shop. Consider your Whole Life's picture and all things financial!

- We have a Financial Planner/Manager (Aaron) and a Real Estate Broker (Jeanne) on Staff.
- We offer LegalShield, an inexpensive way to get some basic coverage and do your annual will, also IDShield to protect your credit, sign up at www.richardasnow.com.
- We have referrals to legal services that help start-up and maintain legal LLC, corporate, and partnership requirements.
- Do you need Bookkeeping?
- A Trust Attorney?
- A Personal Business Assistant / Daily Money Manager?

We are proud of our network and happy to direct you to get interconnected tools and procedures to make your life easier.

Thank you for your Trust and Support.

HAPPY HOLIDAYS

Best wishes to you and yours from us and ours.
It truly does take a village, we look forward to sharing ours with you.

The Staff at Tax Office SF
aka Steven J Axelrod Inc

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- Diane, Linda, Fain, Kat, Silvie (Admin)
- Pat, Nina, Ervin (Seasonal support)

JOIN THE TEAM ?
We are looking for morning shift year-round Admin (some flexibility on schedule), half-time equivalent with extra tax-season hours. Contact admin@taxofficesf.com

TICK TOCK 2019 TICK TOCK
A List of Year-End Tax Reduction Strategies

Charitable Contributions and Clutter Reduction

If you itemize, charitable contribution deductions are the easiest way to increase your itemized deductions before the end of the year. Cash contributions require acknowledgement letters. Donations of goods to thrift store type entities do not require receipts if the combined value is under $500. If the value of your combined drop off donations exceeds $500, you need to submit those receipts to your tax preparer.

Clean Tech Credits

Credits, rebates, incentives for solar and electric vehicles are available at the federal level as well as individual states, cities, even utilities. However, it pays to delay! Many credits and incentives have already started to expire and 2020 will be a significant year. See below for more state and local specific benefits.

- Solar/Roof/Battery: Many people don't know that there is an opportunity to "bundle" your solar package so that the total tax credit can include more than just the Photovoltaic (PV) panels. By way of background, there is a Federal Tax Credit for installing solar panels at one's primary residence. In 2020 the tax credit goes down a bit, from 30% to 26%. Each year the credit will continue to gradually reduce as solar adoption continues to expand. If you need a new roof prior to installing the solar panels, you can include some proration costs of the new roof in your bundle. What about home battery back up packs? If you are a California resident and have been subject to the roving PG&E blackouts, it might make sense to add this to your solar installation bundle and get the most out of your federal tax credit. Reminder, the tax credits are only available for purchasing - not leasing - a solar system. Financing is often available and you get the full tax credit the year of purchase, even if you take several years to pay it off.

  In many individual jurisdictions there are added incentives for going solar that come from all types of state and local entities. This database funded by the Department of Energy is a good place to start when searching for local incentives and policies: https://www.dsireusa.org/

- Electric Vehicle: The federal income tax credit of $7,500 still applies for some but not all electric vehicle manufacturers, depending on whether the company has reached its sales quota. The credit is set to expire all together by March 2020 unless legislation is passed to expand it. Some vehicle manufacturers have already reached their sales quota (including Tesla) so the tax credit mayor may not apply to the electric vehicle you are considering. Similar to solar, there are local incentives and even rebates from local utilities - for purchasing electric vehicles. As expected, the savings will gradually be phased down as adoption increases. Here's a good resource to have a look at benefits at both state and federal levels: https://pluginamerica.org/why-go-plug-in/state-federal-incentives/ if you are considering an EV purchase. And if you want to stay on top of the EV sales quotas https://evadoption.com/ is a detailed resource.

Retirement Deductions

Any retirement contributions you make directly reduce your taxable income—and you still have the money inside the retirement account, growing free of taxes until you take it out of the account. Reminders:

1. Put your retirement plan in place no later than December 31 so you are absolutely sure that you have a plan.
2. Consider converting your traditional IRA to a Roth IRA when income is low. The long-term savings here can be huge. Make sure to leave the converted funds in the Roth for at least five years.
3. Solo 401-K: Are you your own boss and/or want better retirement options? If you are self-employed with no employees, or only employ yourself (in your S-Corp), consider establishing a Solo or Individual 401k **before year-end** - you don't have to fund or use it, but the amount you can contribute scales up faster than a SEP-IRA and can be contributed after we calculate your taxes.

Section 199A Strategies That Reduce Taxes

If your taxable income is above $160,700 (or $321,400 on a joint return), then your type of business, wages paid, and property can reduce and/or eliminate your Section 199A tax deduction. If your deduction amount is less than 20 percent of your qualified business income (QBI), then consider using one or more of the strategies described below to increase your Section 199A deduction.

Retirement Contribution

If you are a sole proprietor, your retirement contributions don't reduce your Qualified Business Income - QBI. Therefore, as long as your QBI is the basis for your Section 199A deduction, you can put away as much as you want using a traditional IRA, a SIMPLE IRA, a SEP-IRA, or an individual 401(k) without damaging your Section 199A deduction.

If you are an S corporation owner, your retirement strategy can achieve the same result as the sole proprietor's if you make an employee salary or wage contribution (and no contribution by the S corporation) to the retirement plan.

Use Your Credit Cards

If you are a single-member LLC or sole proprietor filing Schedule C for your business, the day you charge a purchase to your business or personal credit card is the day you deduct the expense. Therefore, as a Schedule C taxpayer, you should consider using your credit card for last-minute purchases of office supplies and other business necessities.

If you operate your business as a corporation, and if the corporation has a credit card in the corporate name, the same rule applies: the date of charge is the date of deduction for the corporation.

But if you operate your business as a corporation and you are the personal owner of the credit card, the corporation must reimburse you if you want the corporation to realize the tax deduction, and that happens on the date of reimbursement. Thus, submit your expense report and have your corporation make its reimbursements to you before midnight on December 31.

Buy Business Assets
Thanks to 100 percent bonus depreciation and Section 179 expensing, you can write off the entire cost of most assets you buy and place in service before December 31, 2019.

Harvest Capital Losses
Capital gains add to your taxable income, which is the income that

- determines your eligibility for the Section 199A tax deduction,
- sets the upper limit (ceiling) on the amount of your Section 199A tax deduction, and
- establishes when you need wages and/or property to obtain your maximum deductions.

If the capital gains are hurting your Section 199A deduction, you have time before the end of the year to harvest capital losses to offset those harmful gains.

Medical Deductions

If you have a Section 105 plan in place and you have not been reimbursing expenses monthly, do a reimbursement now to get your 2019 deductions, and then put yourself on a monthly reimbursement schedule in 2020.

If you have not implemented your qualified small employer health reimbursement account (QSEHRA), make sure to get that done properly now. If you have not yet put a QSEHRA in place and you plan to do so on January 1, do that now and just suffer that $50-per-employee penalty should you be found out. Alternately, consider implementing an individual care HRA (ICHRA) in 2020.

If you operate your business as an S corporation and you want an above-the-line tax deduction for the cost of your health insurance, you need the S corporation to (a) pay for or reimburse you for the health insurance and (b) put it on your W-2. Make sure that the reimbursement happens before December 31 and that you have the reimbursement set up to show on the W-2.

Claim the tax credit for the group health insurance you give your employees. If you provide your employees with group health insurance, see whether your pay structure and number of employees put you in a position to claim a 50 percent tax credit for some or all of the monies you paid for health insurance in 2019 (and possibly in prior years).

General Business Income Tax Deductions

The goal of this strategy is to get the IRS to owe you money. Of course, the IRS is not likely to cut you a check for this money (although in the right circumstances, that will happen), but you'll realize the cash when you pay less in taxes.

Here are five powerful business tax-deduction strategies that you can easily understand and implement before the end of 2019.

Prepay Expenses Using the IRS Safe Harbor
You just have to thank the IRS for its tax-deduction safe harbors. IRS regulations contain a safe-harbor rule that allows cash-basis taxpayers to prepay and deduct qualifying expenses up to 12 months in advance without challenge, adjustment, or change by the IRS.

Under this safe harbor, your 2019 prepayments cannot go into 2021. This makes sense, because you can prepay only 12 months of qualifying expenses under the safe-harbor rule. For a cash-basis taxpayer, qualifying expenses include lease payments on business vehicles, rent payments on offices and machinery, and business and malpractice insurance premiums.

Example. You pay $3,000 a month in rent and would like a $36,000 deduction this year. So on Tuesday, December 31, 2019, you mail a rent check for $36,000 to cover all of your 2020 rent. Your landlord does not receive the payment in the mail until Thursday, January 2, 2020. Here are the results:

- You deduct $36,000 in 2019 (the year you paid the money).
- The landlord reports $36,000 in 2020 (the year he received the money).

You get what you want—the deduction this year. The landlord gets what he wants—next year’s entire rent in advance, eliminating any collection problems while keeping the rent taxable in the year he expects it to be taxable. Don’t surprise your landlord: if he had received the $36,000 of rent paid in advance in 2019, he would have had to pay taxes on the rent money in tax year 2019.

Buy Office Equipment
With bonus depreciation now at 100 percent along with increased limits for Section 179 expensing, buy your equipment or machinery and place it in service before December 31, and get a deduction for 100 percent of the cost in 2019.

Qualifying bonus depreciation and Section 179 purchases include new and used personal property such as machinery, equipment, computers, desks, chairs, and other furniture (and certain qualifying vehicles).

Don’t Assume You Are Taking Too Many Deductions
If your business deductions exceed your business income, you have a tax loss for the year. With a few modifications to the loss, tax law calls this a “net operating loss,” or NOL. If you are just starting your business, you could very possibly have an NOL. You could have a loss year even with an ongoing, successful business.

You used to be able to carry back your NOL two years and get immediate tax refunds from prior years; however, the Tax Cuts and Jobs Act (TCJA) eliminated this provision. Now, you can only carry your NOL forward, and it can only offset up to 80 percent of your taxable income in any one future year.

What does all this mean? You should never stop documenting your deductions, and you should always claim all your rightful deductions. We have spoken with far too many business owners, especially new owners, who don't claim all their deductions when those deductions would produce a tax loss.

Stop Billing Customers, Clients, and Patients

Here is one rock-solid, time-tested, easy strategy to reduce your taxable income for this year: stop billing your customers, clients, and patients until after December 31, 2019. (We assume here that you or your corporation is on a cash basis and operates on the calendar year.) Customers, clients, patients, and insurance companies generally don't pay until billed. Not billing customers and patients is a time-tested tax-planning strategy that business owners have used successfully for years.

Example. Jim Schafback, a dentist, usually bills his patients and the insurance companies at the end of each week; however, in December, he sends no bills. Instead, he gathers up those bills and mails them the first week of January. Presto! He just postponed paying taxes on his December 2019 income by moving that income to 2020.

Marriage, Kids, and Family

Here are some key marriage, kids, and family strategies that you can put in play before the end of the year.

Put Your Children on Your Payroll

If you have a child under the age of 18 and you operate your business as a Schedule C sole proprietor or as a spousal partnership, you absolutely need to consider having that child on your payroll. Why?

- First, neither you nor your child pay payroll taxes on the child's income.
- Second, with a traditional IRA, the child can avoid all federal income taxes on up to $18,200 in income.

If you operate your business as a corporation, you can still benefit by employing the child even though you and the child have to pay payroll taxes.

Stay Single to Increase Mortgage Deductions

Two single people can deduct more mortgage interest than a married couple. If you own a home with someone other than a spouse, and you bought it on or before December 15, 2017, you individually can deduct mortgage interest on up to $1 million of a qualifying mortgage.

If you bought your house after December 15, 2017, then the reduced $750,000 mortgage limit from the TCJA applies. In that case, for two single people, the maximum deduction for mortgage interest is based on a ceiling of $1.5 million.

Get Married on or before December 31

Remember, if you are married on December 31, you are married for the entire year. If you are thinking of getting married in 2020, you might want to rethink that plan for the same reasons that apply in a divorce (as described above). The IRS could make big savings available to you if you get married on or before December 31, 2019.

You have to run the numbers in your tax return both ways to know the tax benefits and detriments for your particular case. But a quick trip to the courthouse may save you thousands.

Get Divorced after December 31
The marriage rule works like this: you are considered married for the entire year if you are married on December 31. Although lawmakers have made many changes to eliminate the differences between married and single taxpayers, in most cases the joint return works to your advantage.

Warning on alimony! Tax Reform changed the tax treatment of alimony payments under divorce and separate maintenance agreements executed after December 31, 2018:

- Under the old rules, the payor deducts alimony payments, and the recipient includes the payments in income.
- Under the new rules, which apply to all agreements executed after December 31, 2018, the payor gets no tax deduction, and the recipient does not recognize income.

Make Use of the 0 Percent Tax Bracket
In the old days, you used this strategy with your college student. Today, this strategy does not work with the college student, because the kiddie tax now applies to students up to age 24. But this strategy is a good one, so ask yourself this question: do I give money to my parents or other loved ones to make their lives more comfortable?

If the answer is yes, is your loved one in the 0 percent capital gains tax bracket? The 0 percent capital gains tax bracket applies to a single person with less than $39,376 in taxable income and to a married couple with less than $78,751 in taxable income.

If the parent or other loved one is in the 0 percent capital gains tax bracket, you can get extra bang for your buck by giving this person appreciated stock rather than cash.

Example. You give Aunt Millie shares of stock with a fair market value of $20,000, for which you paid $2,000. Aunt Millie sells the stock and pays zero capital gains taxes. She now has $20,000 in after-tax cash to spend, which should take care of things for a while.

Had you sold the stock, you would have paid taxes of $4,284 in your tax bracket (23.8 percent times the $18,000 gain).

Of course, $5,000 of the $20,000 you gifted goes against your $11.4 million estate tax exemption if you are single. But if you’re married and you made the gift together, you each have a $15,000 gift-tax exclusion, for a total of $30,000, and you have no gift-tax concerns other than the requirement to file a gift-tax return that shows you split the gift.

Some editorial content is provided by the Bradford Tax Institute