

Your monthly tax news & updates

Dear Clients and Friends:

We hope you all had a wonderful 4th of July celebration, filled with BBQs, picnics, family and friends. And we wish the rest of your summer is filled with more fun memories.

Tax day might seem far away, but waiting until year-end to make your tax moves may prove costly to you. Maximizing your tax savings starts with an effective mid-year strategy! We are already midway through summer so if your 2019 returns still aren't in process, make sure to make this a priority to avoid the last minute crunch.

Let us know how we can help you.

Regards,
Rebecca Luers, CPA and Jan Dyer, CPA



If you any questions about the information in this newsletter, [contact us](#). We appreciate you forwarding this newsletter to associates and friends who would benefit from the monthly news we provide and are looking for tax preparation and planning resources from a CPA firm.



Effective Tax Planning Starts Now!

With summertime activities in full swing, tax planning is probably not on the top of your to-do list. But putting it off creates a problem at the end of the year when there's little time for changes to take effect. If you take the time to plan now, you'll have six months for your actions to make a difference on your 2019 tax return. Here are some ideas to get you started.

- 1. Know your upcoming tax breaks.** Pull out your 2018 tax return and take a look at your income, deductions and credits. Ask yourself whether all these breaks will be available again this year. For example: Any changes to your tax situation will make planning now much more important. Are you expecting more income that will bump you to a higher tax rate? Will increased income cause a benefit to phase out? Will any of your children outgrow a tax credit?
- 2. Make tax-wise investment decisions.** Have some loser stocks you were hoping would rebound? If the prospects for revival aren't great, and you've owned them for less than one year (short-term), selling them now before they change to long-term stocks can offset up to \$3,000 in ordinary income this year. Conversely, appreciated stocks held longer than one year may be candidates for potential charitable contributions or possible choices to optimize your taxes with proper planning.
- 3. Adjust your retirement plan contributions.** Are you still making contributions based on last year's limits? Maximum savings amounts increase for retirement plans in 2019. You can contribute up to \$13,000 to a SIMPLE IRA, up to \$19,000 to a 401(k) and up to \$6,000 to a traditional or Roth IRA. Remember to add catch-up contributions if you'll be 50 by the end of December!
- 4. Plan for upcoming college expenses.** With the school year around the corner, understanding the various tax breaks for college expenses before you start doling out your cash for post-secondary education will ensure the maximum tax savings. There are two tax credits available, the American Opportunity Tax Credit (AOTC) and the Lifetime Learning Credit. Plus there are tax benefits for student loan interest and Coverdell Savings accounts. Add 529 college savings plans, and you quickly realize an educational tax strategy is best established early in the year.
- 5. Add some business to your summer vacation.** If you own a business, you might be able to deduct some of your travel expenses as a business expense. To qualify, the primary reason for your trip must be business-related. Keep detailed records of where and when you work, plus get receipts for all ordinary and necessary expenses!

Great tax planning is a year-round process, but it's especially effective at midyear. Making time now not only helps reduce your taxes, it puts you in control of your entire financial situation.



What You Need To Know About IRS Audits

The IRS recently released its 2018 Data Book, including information on its audit activities for the last fiscal year. This details what you need to know regarding your audit risk, how to prepare for and what to expect in an IRS audit.

Know the facts

- An IRS audit is a review to ensure your tax filings are reported correctly according to tax laws.
- Both individual and business tax returns can be audited.
- The IRS won't initiate an audit by telephone.

IRS Audit Statistics

Totals	FY 2015	FY 2016	FY 2017	FY 2018
Tax returns filed in prior calendar year	191,857,005	192,936,878	195,614,161	195,750,099
Audits	1,373,788	1,166,379	1,059,924	991,168
Percentage of returns audited	Less than 1%			

What are your chances of being audited?

It depends. But for most taxpayers, LOW.

Approximately 1 in 198 tax returns were audited in 2018.

The IRS audited 0.6% of all individual income tax returns filed in 2018, and 0.91% of corporation tax returns (excluding S corporations)

There are two types of audits:

- **Field audit:** An in-person interview and review of records. It often happens at taxpayer's home, business or accountant's office.
- **Correspondence audit:** A written request for more info about a specific tax return item or issue handled via mail.

Did you know? Approximately 2/3 of audits are handled through the mail.

Reasons you may be audited

Although the IRS uses random selection as one method to choose tax returns to audit, it may also flag returns because:

1. You're in a higher income tax bracket.
2. You have math errors on your tax return.
3. You report no income or not all of your income.
4. Your tax return involves issues with other taxpayers whose returns are being audited.

Other reasons: reporting too many losses, deducting too many work expenses and claiming too many charitable contributions may also trigger an audit.

Always be prepared

Use your past tax return as a checklist of items to keep on hand:

- A copy of your signed tax return and all supporting documents
- Worksheets that support your return
- Forms W-2
- Forms 1099 (all versions)
- Forms 1095
- Business Forms K-1
- Canceled checks of deducted items
- Receipts supporting deducted items
- Itemized deduction support
- Child care receipts and reporting documents
- Bank statements
- Investment statements
- Mortgage statements
- Credit card statements
- Major purchases or sales
- Receipts for any charitable donations
- Proof of fair market value for any inherited items
- Mileage logs for business, charitable and medical transportation
- Business meals and cellphone use documentation
- Educational expenses

FYI: Always use copies of records during an audit. Keep your original documents.

More ways to prepare: Check IRS.gov to review its Audit Techniques Guides (ATGs). They are used by IRS examiners and can identify areas for potential audits, as well as help you understand what the IRS may question.

What to do if you're audited

Your tax return may never be audited. But if it happens, here are a few tips to make the process go more smoothly:

- Respond to the IRS in a timely manner. If you don't, an in-person meeting may happen.
- Ask for help. NEVER tackle the IRS alone!

- Know what is being asked. Get a clear understanding of the core questions.
- Understand how the auditor has been trained. IRS auditors are trained in certain areas. These are published in the ATGs.

The bright side: If you are audited, you may end up with a refund. In FY 2018, approximately 30,000 audits resulted in refunds, totaling \$6 million.

Sources: IRS.gov, Kiplinger.com, Forbes.com, Nerdwallet.com



How To Protect Your Social Security Number

Very few things in life can create a higher degree of stress than having your Social Security Number (SSN) stolen. This is because, unlike other forms of ID, your SSN is virtually permanent. While most instances of SSN theft are outside your control, there are some things that you can do to minimize the risk of this ever happening to you.

- **Never carry your card.** Place your SSN card in a safe place. That place is never your wallet or purse. Only take the card with you when you need it.
- **Know who needs it.** As identity theft continues to evolve, there are fewer who really need to know your SSN. Here is that list:
 - **The government.** The federal and state governments use this number to keep track of your earnings for retirement benefits and to ensure you pay proper taxes.
 - **Your employer.** The SSN is used to keep track of your wages and withholdings. It also is used to prove citizenship and to contribute to your Social Security and Medicare accounts.
 - **Certain financial institutions.** Your SSN is used by various financial institutions to prove citizenship, open bank accounts, provide loans, establish other forms of credit, report your credit history or confirm your identity. In no case should you be required

to confirm more than the last four digits of your number.

- **Challenge all other requests.** Many other vendors may ask for your SSN but having it may not be essential. The most common requests come from health care providers and insurance companies, but requests can also come from subscription services when setting up a new account. When asked on a form for your number, leave it blank. If your supplier really needs it, they will ask you for it. This allows you to challenge their request.
- **Destroy and distort documents.** Shred any documents that have your number listed. When providing copies of your tax return to anyone, distort or cover your SSN. Remember, your number is printed on the top of each page of Form 1040. If the government requests your SSN on a check payment, only place the last four digits on the check, and replace the first five digits with Xs.
- **Keep your scammer alert on high.** Never give out any part of the number over the phone or via email. Do not even confirm your SSN to someone who happens to read it back to you on the phone. If this happens to you, file a police report and report the theft to the IRS and Federal Trade Commission.
- **Proactively check for use.** Periodically check your credit reports for potential use of your SSN. If suspicious activity is found, have the credit agencies place a fraud alert on your account. Remember, everyone is entitled to a free credit report once a year. You can obtain yours on the [Annual Credit Report website](#).

Replacing a stolen SSN is not only hard to do, it can create many problems. Your best defense is to stop the theft before it happens.



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