# TAX NEWS YOU NEED TO KNOW

Luers + Dyer
CERTIFIED PUBLIC ACCOUNTANTS

[ home ] [ about us ] [ contact ]

**San Diego Office:**
(619) 283-7113
**Julian Office:**
(760) 765-0343

**Rebecca Luers** CPA | **Jan Dyer** CPA

**IN THIS ISSUE...**



Like Us
On Facebook

Follow Us On LinkedIn

**June 2018**

Dear Clients and Friends:

Summer arrives on June 21. Before you finalize your summer plans, make sure you have considered your finances and tax planning strategies.

We have had a lot of changes in our tax laws this year that could affect you. Invest a little time in planning and then get out there and enjoy the summer knowing you have taken care of business.

We are here to help.

If you have additional 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.

Regards,
Rebecca Luers, CPA and Jan Dyer, CPA

# Tax Filing Reminders

**June 15:**

- The second installment of 2018 individual estimated tax is due.


# It's tax-planning time

Now is the ideal time to schedule a tax-planning session. Your tax return outcome is still fresh, and it's early enough in the year to make corrective action to take advantage of the numerous new tax law changes taking place in 2018. Here's a brief overview of some of the new tax issues that you need to plan for now.

**#1 Income**

Tax rates for both individuals and small businesses have changed substantially. Income tax deductions have also changed drastically, including a near doubling of the standard deduction and the elimination of most personal exemptions and miscellaneous itemized deductions.

You need to review your income tax withholding schedule and see where you fall in the new income tax bracket structure. Small adjustments here could save you hundreds.

**#2 Bunching**

Because of the changes to the deductions structure, using itemized deductions may entail bunching two or even three years of expenses into one tax year. Things like donations to charity and medical expenses that you may have spread across several years are now better bunched into a single year to maximize your tax savings.

If you typically take care of medical expenses or charitable donations at a regular time every year, stop until you have a new tax-efficient plan. If you wish to consider a bunching approach to itemizing, you'll want to make that decision as early in the year as possible.

**#3 SALT (State and local taxes)**

There's now a $10,000 combined total cap on deductions of state and local income, sales and property taxes, which is going to impact a lot of people, especially in high-tax states. This may be a big factor to account for if you've relied on this deduction in the past.

Get an analysis done to see how much larger your tax bill is going to be because of the cap on SALT taxes. There may not be much you can do about it other than changing where you live and own property, but you'll need to have a clear picture of how it will impact your tax return in 2018.

**#4 Mortgage interest changes**

There are several new rules changing how mortgage interest is deducted. You can now no longer deduct the interest cost on mortgage indebtedness greater than $750,000. And you can no longer deduct interest on mortgage indebtedness that wasn't spent directly on buying, building or substantially improving your home.

If you have used a home equity loan interest deduction, you'll need to review how this will impact your itemized deductions.

These are just a few examples of things that you'll need to review in the wake of the largest tax law changes in more than 30 years. Take some time this summer to make sure you have a plan in place.

Contact us for more information.

# The new small business family medical leave credit

There's a new business tax credit that partially reimburses employers for providing paid family and medical leave for select employees. But small businesses should be informed before they try to use this new Family and Medical Leave Act (FMLA) tax break.

**Basics of the new credit**

Employers who provide at least two weeks of paid family and medical leave to employees who earn $72,000 a year or less can claim the FMLA credit to offset some of the cost of that paid leave. Some details:

- The credit ranges between 12.5 percent to 25 percent of the cost of the leave, depending on whether it pays 50 percent salary to a full salary.
- At least 50 percent of salary must be paid during the leave for employers to claim the credit.
- Employees must have worked for at least a year.
- Up to 12 weeks of leave are eligible for the credit.
- The $72,000 salary cap in 2018 will rise with inflation every year.

This credit comes as the result of a law requiring companies with 50 or more employees to provide up to 12 weeks of leave every year. The leave is intended to give employees time to address serious health issues, adapt to new additions to their families from births or adoptions, and to handle family military deployments.

However, small businesses with less than 50 employees aren't covered by the FMLA, though they can voluntarily adopt a leave policy as an employee benefit and claim the new credit.

**Considerations for small business owners**

If you're a small business owner and you're considering providing a leave benefit and claiming the FMLA credit, there are several items to think about:

- The credit currently expires after the 2019 tax year. Congress' intention is to test adoption of the credit and later make it permanent if it's popular with employers.
- It requires administrative setup. You'll have to draft a leave policy separate from your policies for regular vacation, personal, medical and sick time off.
- It may create an employee expectation. If you haven't provided a paid leave benefit before but assess it's worth it due to the credit, it may be a letdown if the credit expires and you no longer offer the benefit to your employees.

Given the uncertain nature of the life of this new credit, if you plan to offer this benefit to your employees, please be prepared to know what you will do if the credit is not extended past next year.

Contact us for more information.


# Audit rates decline for 6th year in a row

IRS audit rates declined last year for the sixth year in a row and are at their lowest level since 2002, the agency reported. That's good news for people who don't like to be audited (which is everybody)!

- Low statistics for audit examinations obscure the reality that you may still have to deal with issues caught by the IRS's automated computer systems. These could be math errors, typos or missing forms. While not as daunting as a full audit, you need to keep your records handy to address any problems.
- Average rates are declining, but audit chances are still high on both ends of the income range: no-income and high-income taxpayers.
- No-income taxpayers are targets for audits because the IRS is cracking down on fraud in refundable credits designed to help those with low income, such as the Earned Income Tax Credit (EITC). The EITC can refund back more than a low-income taxpayer paid in, so scammers attempt to collect these refund credits

through fraudulent returns.

- High-income taxpayers have increasingly been a target for IRS audits. Not only do wealthy taxpayers tend to have more complicated tax returns, but the vast majority of federal income tax revenue comes from wealthy taxpayers. Based on the statistics, the very highest income taxpayers can assume they will be audited about every six years.
- Complicated returns are more likely to be audited. Returns with large charitable deductions, withdrawals from retirement accounts or education savings plans, and small business expenses and deductions are reportedly more likely to be the subject of an audit.

Contact us for more information.

Home | About Us | Services | Staff | Tax Resources



Luers & Dyer, CPAs, LLP, P.O. Box 1934, Julian, CA 92036