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

October 2018

Fall is setting in, the leaves are changing colors and falling off trees and the days are getting cooler. The change of seasons is a reminder that now is the time to finalize your tax plans before the busy holiday season arrives.

Remember that the deadline for submitting 1099 forms is January 31, 2018. Let us know how we can help.

Look for our special edition newsletter highlighting opportunities for tax savings that can be implemented before the year ends. We can help you plan a strategy for optimizing your 2018 taxes and establishing a plan for 2019.

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

October 15

- 2017 individual federal tax returns are due if you filed a six-month extension
- Last day the IRS will accept an electronically filed tax return for the year 2017

January 31

- Deadline to file Form 1099s

Time to Launch Your Tax Strategy

Consider conducting a final tax planning review now to see if you can still take actions to minimize your taxes this year. Here are some ideas to get you started.

- **Assess your income.** Begin by determining how your income this year will compare to last year. Then apply any tax implications this income change may cause. Be sure to account for the lower tax rates and the elimination of exemptions.
  Remember, if your income is rising, more of your income could be subject to a higher tax rate. Your higher income could also trigger a phase out that will prevent you from taking advantage of a deduction or tax credit formerly available to you.
- **Examine life changes**. Review any key events over the past year that may have potential tax implications. Here are some examples:
  - Purchasing or selling a new home
  - Refinancing or adding a new mortgage
  - Getting married or divorced
  - Incurring large medical expenses
  - Changing jobs
  - Having a baby
- **Identify what tax changes may impact you.** Tax changes for the current year are expected to be more impactful than we've seen in 30 years. Determine

which of these changes will affect you. With these changes in mind, review your past income tax return to estimate what the impact may be on your upcoming tax bill. Please keep in mind that Congress has a habit of making last-minute changes, so you will want to plan accordingly.

- **Manage your retirement.** One of the best ways to reduce your taxable income is to use tax beneficial retirement programs. Now is a good time to review your retirement account funding. Are you taking full advantage of your employer's retirement plans? Are you saving money to invest in your future through various retirement savings options?
- **Look into credits.** There are a variety of tax credits available to most taxpayers. Spend some time reviewing the most common ones to ensure your tax plan takes advantage of them. Here are some worth reviewing:
    - Child Tax Credit
    - Earned Income Tax Credit
    - Premium Tax Credit
    - Adoption Credit
    - Elderly and Disabled Credit
    - Educational Credits (Lifetime Learning Credit and American Opportunity Tax Credit)
- **Avoid surprises.** Conducting a final tax planning review now allows you time to try to reduce your tax obligation. This is especially true if you are unsure of the specific changes made to the tax code. Remember some tax-saving ideas may require funding on your part. It is best to identify them now so you can save cash to take advantage of them prior to the end of the year.

Contact us for more information or help.

Fraud? Negligence? Know the Difference!

Each year the IRS opens thousands of investigations looking for possible tax fraud. In 2017 alone, the Criminal Investigation (CI) arm of the IRS identified $2.5 billion in potential tax fraud with a 91.5 percent conviction rate. While the IRS takes tax fraud seriously, they also understand that mistakes happen. Here is what you need to know.

Tax Fraud or Negligence?

Fraud. The IRS defines tax fraud as intentional wrongdoing, on the part of the taxpayer, with the specific purpose of evading a tax known to be owing. To be considered fraud, taxes must be owed and there must be deceitful intent. If convicted of tax fraud, penalties can be hundreds of thousands of dollars and may include prison time.

Negligence. On the other hand, tax negligence is an unintentional mistake. Common mistakes are wrong names or Social Security numbers, math miscalculations and errors in figuring credits or deductions. Most of these mistakes happen when individuals calculate taxes on their own. While a mistake is not usually considered fraudulent, it can create additional penalties and interest if the mistake results in more taxes owed.

Areas to be extra cautious

The majority of returns with false information will be considered a mistake, not fraud, due to a lack of nefarious intent. Even still, it's good to know when to be extra cautious to avoid unneeded scrutiny of your tax return. Here are some common areas the IRS is on the lookout for fraud:

- **Underreporting income.** Income that doesn't get reported is usually from some form of non-wage income like a side job or contractor arrangement. Make sure you have documentation of all payments received by you. Be very suspicious if you are paid in cash. All income, regardless of the source, needs to be reported.
- **Including personal expenses as business deductions.** Intentionally padding business deductions with non-deductible personal expenses can be deemed tax fraud. If you have a business, ensure that you have a separate bank account for your business transactions to avoid extra questions. For all deductions, keep your receipts in an organized fashion to prove the expense if necessary.
- **Concealing information during an audit.** Going through an audit can be an unnerving event. Don't add to the pain by intentionally hiding information from an auditor and unknowingly creating a fraudulent situation. If you are selected for an audit, the first thing to do is get help!

The tax code is complex and the IRS understands this. Missing information from taxpayers is often considered an accident unless there is reason to believe it is intentional. If you have a situation you are concerned about, don't hesitate to call.

Contact us for more information or help.

Hustling for Extra Income

Conduct an online search of the phrase "side hustle" and you will find websites with countless ideas on how you can make some money on the side. The ideas range from carpet cleaning to podcasting. What a lot of these sites fail to inform you, is the tax implications that come from the additional income. Here are five tips to help you stay on top of your side hustle taxes:

1. **Business or hobby?** When reviewing your activity, the first determination made by the IRS is whether the arrangement is a business or a hobby. There are several factors the IRS uses, but the big one is: does the activity make a profit or intend to make a profit? The IRS will presume the activity is a business if a profit is made during at least three of the last five years. Once business versus hobby is determined, differing tax rules will apply. In short, expenses paid for operating a business are tax deductible. Hobby expenses are not.
2. **All income must be reported.** Income from side hustles can come from a variety of sources. Regardless of where the money comes from or how much it is, it needs to be reported on your taxes. If you are working for a company, you will get a 1099 (if you are paid more than $600) or a W-2.
3. **Keep good records and save receipts.** Being organized and having good records will do two things: ensure accurate tax reporting and provide backup in the event of an audit. Log each receipt of income and each expense. Save copies of receipts in an organized fashion for easy access. There are multiple programs and apps to help with this, but a simple spreadsheet may be all that you need.
4. **Make estimated payments.** If you are running a profitable side business you will owe additional taxes. In addition to income tax, you might owe self-employment tax as well. Federal quarterly estimated tax payments are required if you will owe more than $1,000 in taxes for the year. Even if you think you will owe less than that, it's a good idea to set a percentage of your income aside to avoid a surprise when you file.
5. **Get professional tax help.** There are many other tax factors that can arise from side income such as business entity selection, sales tax, state taxes and more. Call to set up a time to work through your situation and determine the best course of action moving forward. Knowing you have someone to help with your tax obligations will free you to focus on your extra income generating activity.

Creating a "side hustle" can be fun, rewarding and bring in additional income to help with expenses or add funds for other activities. Just make sure you understand how the income will be taxed to avoid an unwanted surprise.

Contact us for more information or help.