THE VOS VOICE

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"BECAUSE ACCOUNTING MATTERS AND WE KNOW IT"

*VOS CPAs, PLLC 30 Wall Street, NY, NY 10005 * 80 Orville Drive, Bohemia, NY 11716 * 41 Park of Commerce Way, Savannah, GA 31405*

www.voscpas.com

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GET STARTED ON 2018 TAX PLANNING NOW

With the April 17 individual income tax filing deadline behind you (or with your 2017 tax return on the back burner if you filed for an extension), you may be hoping to not think about taxes for the next several months. But for maximum tax savings, now is the time to start tax planning for 2018. It's especially critical to get an early start this year because the Tax Cuts and Jobs Act (TCJA) has substantially changed the tax environment.

MANY VARIABLES

A tremendous number of variables affect your overall tax liability for the year. Looking at these variables early in the year can give you more opportunities to reduce your 2018 tax bill.

For example, the timing of income and deductible expenses can affect both the rate you pay and when you pay. By regularly reviewing your year-to-date income, expenses and potential tax, you may be able to time income and expenses in a way that reduces, or at least defers, your tax liability.

In other words, tax planning shouldn't be just a year-end activity.

CERTAINTY VS. UNCERTAINTY

Last year, planning early was a challenge because it was uncertain whether tax reform legislation would be signed into law, when it would go into effect and what it would include. This year, the TCJA tax reform legislation is in place, with most of the provisions affecting individuals in effect for 2018–2025. And additional major tax law changes aren't expected in 2018. So there's no need to hold off on tax planning.

But while there's more certainty about the tax law that will be in effect this year and next, there's still much *uncertainty* on exactly what the impact of the TCJA changes will be on each taxpayer. The new law generally reduces individual tax rates, and it expands some tax breaks. However, it reduces or eliminates many other breaks.

The total impact of these changes is what will ultimately determine which tax strategies will make sense for you this year, such as the best way to time income and expenses. You may need to deviate from strategies that worked for you in previous years and implement some new strategies. Getting started sooner will help ensure you don't take actions that you think will save taxes but that actually will be costly under the new tax regime. It will also allow you to take full advantage of new tax-saving opportunities.

NOW AND THROUGHOUT THE YEAR

To get started on your 2018 tax planning, contact us. We can help you determine how the TCJA affects you and what strategies you should implement now and throughout the year to minimize your tax liability.

"Great things in business are never done by one person. They're done by a team of people"
~ Steve Jobs

Do you Need to Adjust your Withholding?

If you received a large refund after filing your 2017 income tax return, you're probably enjoying the influx of cash. But a large refund isn't all positive. It also means you were essentially giving the government an interest-free loan.

That's why a large refund for the previous tax year would usually indicate that you should consider reducing the amounts you're having withheld (and/or what estimated tax payments you're making) for the current year. But 2018 is a little different.

TCJA and withholding

To reflect changes under the Tax Cuts and Jobs Act (TCJA) — such as the increase in the standard deduction, suspension of personal exemptions and changes in tax rates and brackets — the IRS updated the withholding tables that indicate how much employers should hold back from their employees' paychecks, generally reducing the amount withheld.

The new tables may provide the correct amount of tax withholding for individuals with simple tax situations, but they might cause other taxpayers to not have enough withheld to pay their ultimate tax liabilities under the TCJA. So even if you received a large refund this year, you could end up owing a significant amount of tax when you file your 2018 return next year.

Perils of the new tables

The IRS itself cautions that people with more complex tax situations face the possibility of having their income taxes underwithheld. If, for example, you itemize deductions, have dependents age 17 or older, are in a two-income household or have more than one job, you should review your tax situation and adjust your withholding if appropriate.

The IRS has updated its withholding calculator (available at irs.gov) to assist taxpayers in reviewing their situations. The calculator reflects changes in available itemized deductions, the increased child tax credit, the new dependent credit and repeal of dependent exemptions.

More considerations

Tax law changes aren't the only reason to check your with-holding. Additional reviews during the year are a good idea if:

- You get married or divorced,
- You add or lose a dependent,
- You purchase a home,
- You start or lose a job, or
- Your investment income changes significantly.

You can modify your withholding at any time during the year, or even multiple times within a year. To do so, you simply submit a new Form W-4 to your employer. Changes typically will go into effect several weeks after the new Form W-4 is submitted. (For estimated tax payments, you can make adjustments each time quarterly payments are due.)

The TCJA and your tax situation

If you rely solely on the new withholding tables, you could run the risk of significantly underwithholding your federal income taxes. As a result, you might face an unexpectedly high tax bill when you file your 2018 tax return next year. Contact us for help determining whether you should adjust your withholding. We can also answer any questions you have about how the TCJA may affect your particular situation.

Sending Your Kids to Day Camp May Provide a Tax Break

When school lets out, kids participate in a wide variety of summer activities. If one of the activities your child is involved with is day camp, you might be eligible for a tax credit!

Dollar-for-dollar savings

Day camp (but not overnight camp) is a qualified expense under the child and dependent care credit, which is worth 20% of qualifying expenses (more if your adjusted gross income is less than $43,000), subject to a cap. For 2018, the maximum expenses allowed for the credit are $3,000 for one qualifying child and $6,000 for two or more.

Remember that tax credits are particularly valuable because

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they reduce your tax liability dollar-for-dollar — $1 of tax credit saves you $1 of taxes. This differs from deductions, which simply reduce the amount of income subject to tax. For example, if you're in the 24% tax bracket, $1 of deduction saves you only $0.24 of taxes. So it's important to take maximum advantage of the tax credits available to you.

Qualifying for the credit

A qualifying child is generally a dependent under age 13. (There's no age limit if the dependent child is unable physically or mentally to care for him- or herself.) Special rules apply if the child's parents are divorced or separated or if the parents live apart.

Eligible costs for care must be work-related. This means that the child care is needed so that you can work or, if you're currently unemployed, look for work.

If you participate in an employer-sponsored child and dependent care Flexible Spending Account (FSA), also sometimes referred to as a Dependent Care Assistance Program, you can't use expenses paid from or reimbursed by the FSA to claim the credit.

Determining eligibility

Additional rules apply to the child and dependent care credit. If you're not sure whether you're eligible, contact us. We can help you determine your eligibility for this credit and other tax breaks for parents.

IT'S TIME FOR A MID-YEAR CHECK UP

Time flies when you're busy running a business, but it's important to occasionally pause and assess interim performance — otherwise you're likely to be surprised by the year-end results. When reviewing midyear financial reports, however, recognize their potential shortcomings. These reports might not be as reliable as year-end financials, unless a CPA prepares them or performs agreed-upon procedures on specific accounts.

Diagnostic benefits

Monthly, quarterly and midyear financial reports can provide insight into trends and possible weaknesses. Interim reporting can be especially helpful for businesses that were struggling at the end of 2017.

For example, you might compare year-to-date revenue for 2018 against 1) the same time period for 2017, or 2) your annual budget for 2018. If your business isn't growing or achieving its goals, find out why. Perhaps you need to provide additional sales incentives, implement a new ad campaign or alter your pricing.

You can also review your gross margin [(revenue – cost of sales) ÷ revenue]. If your margin is slipping compared to 2017 or industry benchmarks, find out what's going wrong — and take corrective actions.

Don't forget the balance sheet. Reviewing major categories of assets and liabilities can help detect working capital problems before they spiral out of control. For instance, a buildup of accounts receivable may signal collection problems. Or, if your company is drawing heavily on its line of credit, operations might not be generating sufficient cash flow.

Potential shortcomings

When interim financials seem out of whack, don't panic. Some anomalies may not be caused by problems in your daily business operations. Instead, they might be caused by informal accounting practices that are common midyear (but are corrected by your CPA at year end).

For example, some controllers might liberally interpret period "cutoffs" or use subjective estimates for certain account balances and expenses. In addition, interim financial statements typically exclude costly year-end expenses, such as profit sharing and shareholder bonuses. Interim financial statements, therefore, generally paint a rosier picture of a company's performance than its year-end report potentially may.

Furthermore, many companies perform time-consuming physical inventory counts exclusively at year end. Therefore, the inventory amount shown on the interim balance sheet might be based solely on computer inventory schedules or, in some instances, the controller's estimate using historic gross margins. Similarly, accounts receivable may be overstated, because overworked controllers may lack time or personnel to adequately evaluate whether the interim balance contains any bad debts.

Proceed with caution

Contact us for help interpreting your midyear results, as well as detecting and correcting potential problems. Unlike year-end financials, interim reports are seldom subject to external audit or rigorous internal accounting scrutiny. We can remedy any shortcomings by performing additional testing procedures on your interim financials — or preparing audited or reviewed midyear statements that conform to U.S. Generally Accepted Accounting Principles.

~I R S Corner

IR-2018-115 - IRS PROVIDES GUIDANCE FOR HURRICANE PREPAREDNESS

WASHINGTON — The IRS reminds taxpayers who may be impacted by hurricanes and other natural disasters that now is a good time to begin preparing for one. National Hurricane Preparedness Week runs from May 6-12. The IRS also wants taxpayers to know that the agency is here to help, including offering a special toll-free hotline for those in federally-declared disaster areas, staffed with IRS specialists trained to handle disaster-related issues.

DON'T FORGET TO UPDATE EMERGENCY PLANS

Preparing for an emergency requires a regularly-updated emergency plan. Because a disaster can strike any time, it's important that plans be updated annually. Personal and business situations change, as do preparedness needs. When employers hire new employees, or when a company or organization changes functions, they should update plans accordingly and inform employees of the changes.

CREATE ELECTRONIC COPIES OF KEY DOCUMENTS

Taxpayers can help themselves by keeping a duplicate set of key documents, including bank statements, tax returns and insurance policies, in a safe place such as a waterproof container that are away from the original set.

Now that many financial institutions provide statements and documents electronically, safeguarding financial information is easier. Even if the original documents are provided only on paper, these can be scanned into an electronic format. Taxpayers can then download them to a storage device such as an external hard drive or USB flash drive, or create a CD or DVD.

DOCUMENT VALUABLES

It's a good idea for taxpayers to photograph or videotape the contents of any home, especially high value items. Documenting these will make it easier to claim any available insurance and tax benefits should a disaster strike. The IRS has a disaster-loss workbook, Publication 584, to help taxpayers compile a room-by-room list of belongings.

Photographs can help anyone prove the fair market value of items for insurance and casualty loss claims. Ideally, photos should be stored with a friend or family member who lives outside the area.

CHECK ON FIDUCIARY BONDS

Employers who use payroll service providers should ask the provider if it has a fiduciary bond in place. The bond could protect the employer in the event of default by the payroll service provider.

IRS READY TO HELP

In the case of a federally-declared disaster, an affected taxpayer can call 866-562-5227 to speak with an IRS specialist trained to handle disaster-related issues.

Back copies of previously filed tax returns and all attachments, including Forms W-2, can be requested by filing Form 4506, Request for Copy of Tax Return. Alternatively, transcripts showing most line items on these returns can be ordered through the Get Transcript link on IRS.gov, by calling 800-908-9946 or by using Form 4506T-EZ, Short Form Request for Individual Tax Return Transcript, or Form 4506-T, Request for Transcript of Tax Return.
Find other hurricane preparedness tips and more information about Hurricane Preparedness Week on the National Weather Service web site.

“"The secret of success is to do the common thing uncommonly well."

~ John D. Rockefeller, Jr.

“Don't be afraid to give up the good, to go for the great.”