THE VOS VOICE

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"BECAUSE ACCOUNTING MATTERS AND WE KNOW IT"

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MAKE A DEDUCTIBLE IRA CONTRIBUTION FOR 2018. IT'S NOT TOO LATE!

Do you want to save more for retirement on a tax-favored basis? If so, and if you qualify, you can make a deductible traditional IRA contribution for the 2018 tax year between now and the tax filing deadline and claim the write-off on your 2018 return. Or you can contribute to a Roth IRA and avoid paying taxes on future withdrawals.

You can potentially make a contribution of up to $5,500 (or $6,500 if you were age 50 or older as of December 31, 2018). If you're married, your spouse can potentially do the same, thereby doubling your tax benefits.

The deadline for 2018 traditional and Roth contributions for most taxpayers is April 15, 2019 (April 17 for those in Maine and Massachusetts).

There are some ground rules. You must have enough 2018 earned income (from jobs, self-employment or alimony) to equal or exceed your IRA contributions for the tax year. If you're married, either spouse can provide the necessary earned income. And you can't make a deductible contribution to a traditional IRA if you were 70½ or older as of December 31, 2018. (But you can make one to a Roth IRA after that age.)

Finally, deductible IRA contributions are phased out (reduced or eliminated) if last year's modified adjusted gross income (MAGI) is too high.

Types of contributions

If you haven't already maxed out your 2018 IRA contribution limit, consider making one of these three types of contributions by the April deadline:

1. ***Deductible traditional***. With traditional IRAs, account growth is tax-deferred and distributions are subject to income tax. If you and your spouse don't participate in an employer-sponsored plan such as a 401(k), the contribution is fully deductible on your 2018 tax return. If you or your spouse do participate in an employee-sponsored plan, your deduction is subject to the following MAGI phase-out:

- For married taxpayers filing jointly, the phase-out range is specific to each spouse based on whether he or she is a participant in an employer-sponsored plan:
  - For a spouse who participated in 2018: $101,000–$121,000.
  - For a spouse who didn't participate in 2018: $189,000–$199,000.
- For single and head-of-household taxpayers participating in an employer-sponsored plan: $63,000–$73,000.

Taxpayers with MAGIs within the applicable range can deduct a partial contribution. But those with MAGIs exceeding the applicable range can't deduct any IRA contribution.

2. ***Roth***. Roth IRA contributions aren't deductible, but qualified distributions — including growth — are tax-free, if you satisfy certain requirements.

Your ability to contribute, however, is subject to a MAGI-based phase-out:

- For married taxpayers filing jointly: $189,000–$199,000.
- For single and head-of-household taxpayers: $120,000–$135,000.

You can make a partial contribution if your 2018 MAGI is within the applicable range, but no contribution if it exceeds the top of the range.

3. ***Nondeductible traditional***. If your income is too high for you to fully benefit from a deductible traditional or a Roth contribution, you may benefit from a nondeductible contribution to a traditional IRA. The account can still grow tax-deferred, and when you take qualified distributions, you'll only be taxed on the growth.

Act fast

Traditional and Roth IRAs provide a powerful way to save for retirement on a tax-advantaged basis. Contact us to learn more about making 2018 contributions and making the most of IRAs in 2019 and beyond.

DEDUCTING BUSINESS MEAL EXPENSES UNDER TODAY'S TAX RULES

In the course of operating your business, you probably spend time and money "wining and dining" current or potential customers, vendors and employees. What can you deduct on your tax return for these expenses? The rules changed under the Tax Cuts and Jobs Act (TCJA), but you can still claim some valuable write-offs.

No more entertainment deductions
One of the biggest changes is that you can no longer deduct most business-related entertainment expenses. Beginning in 2018, the TCJA disallows deductions for entertainment expenses, including those for sports events, theater productions, golf outings and fishing trips.

Meal deductions still allowed
You can still deduct 50% of the cost of food and beverages for meals conducted with business associates. However, you need to follow three basic rules in order to prove that your expenses are business related:

1. ***The expenses must be "ordinary and necessary" in carrying on your business.*** This means your food and beverage costs are customary and appropriate. They shouldn't be lavish or extravagant.

2. ***The expenses must be directly related or associated with your business.*** This means that you expect to receive a concrete business benefit from them. The principal purpose for the meal must be business. You can't go out with a group of friends for the evening, discuss business with one of them for a few minutes, and then write off the check.

3. ***You must be able to substantiate the expenses.*** There are requirements for proving that meal and beverage expenses qualify for a deduction. You must be able to establish the amount spent, the date and place where the meals took place, the business purpose and the business relationship of the people involved.

Set up detailed recordkeeping procedures to keep track of business meal costs. That way, you can prove them and the business connection in the event of an IRS audit.

Other considerations
What if you spend money on food and beverages at an entertainment event? The IRS clarified in guidance (Notice 2018-76) that taxpayers can still deduct 50% of food and drink expenses incurred at entertainment events, but only if business was conducted during the event or shortly before or after. The food-and-drink expenses should also be "stated separately from the cost of the entertainment on one or more bills, invoices or receipts," according to the guidance.

Another related tax law change involves meals provided to employees on the business premises. Before the TCJA, these meals provided to an employee for the convenience of the employer were 100% deductible by the employer. Beginning in 2018, meals provided for the convenience of an employer in an on-premises cafeteria or elsewhere on the business property are only 50% deductible. After 2025, these meals won't be deductible at all.

Plan ahead
As you can see, the treatment of meal and entertainment expenses became more complicated after the TCJA. Your tax advisor can keep you up to speed on the issues and suggest strategies to get the biggest tax-saving bang for your business meal bucks.

"DON'T BE AFRAID TO GIVE UP THE GOOD TO GO FOR THE GREAT."

-- John D. Rockefeller

DIVORCING BUSINESS OWNERS NEED TO PAY ATTENTION TO TAX IMPLICATIONS

If you're getting a divorce, you know it's a highly stressful time. But if you're a business owner, tax issues can complicate matters even more. Your business ownership interest is one of your biggest personal assets and your marital property will include all or part of it.

Please see *Divorcing Business Owners Need to Pay Attention to Tax Implications* on page 3

Divorcing Business Owners Need to Pay Attention to Tax Implications
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Transferring property tax-free

You can generally divide most assets, including cash and business ownership interests, between you and your soon-to-be ex-spouse without any federal income or gift tax consequences. When an asset falls under this tax-free transfer rule, the spouse who receives the asset takes over its existing tax basis (for tax gain or loss purposes) and its existing holding period (for short-term or long-term holding period purposes).

For example, let's say that, under the terms of your divorce agreement, you give your house to your spouse in exchange for keeping 100% of the stock in your business. That asset swap would be tax-free. And the existing basis and holding periods for the home and the stock would carry over to the person who receives them.

Tax-free transfers can occur before the divorce or at the time it becomes final. Tax-free treatment also applies to postdivorce transfers so long as they're made "incident to divorce." This means transfers that occur within:

- A year after the date the marriage ends, or
- Six years after the date the marriage ends if the transfers are made pursuant to your divorce agreement.

Future tax implications

Eventually, there will be tax implications for assets received tax-free in a divorce settlement. The ex-spouse who winds up owning an appreciated asset — when the fair market value exceeds the tax basis — generally must recognize taxable gain when it's sold (unless an exception applies).

What if your ex-spouse receives 49% of your highly appreciated small business stock? Thanks to the tax-free transfer rule, there's no tax impact when the shares are transferred. Your ex will continue to apply the same tax rules as if you had continued to own the shares, including carryover basis and carryover holding period. When your ex-spouse ultimately sells the shares, he or she will owe any capital gains taxes. You will owe nothing.

Note that the person who winds up owning appreciated assets must pay the built-in tax liability that comes with them. From a net-of-tax perspective, appreciated assets are worth less than an equal amount of cash or other assets that haven't appreciated. That's why you should always take taxes into account when negotiating your divorce agreement.

In addition, the IRS now extends the beneficial tax-free transfer rule to ordinary-income assets, not just to capital-gains assets. For example, if you transfer business receivables or inventory to your ex-spouse in divorce, these types of ordinary-income assets can also be transferred tax-free. When the asset is later sold, converted to cash or exercised (in the case of nonqualified stock options), the person who owns the asset at that time must recognize the income and pay the tax liability.

Avoid adverse tax consequences

Like many major life events, divorce can have major tax implications. For example, you may receive an unexpected tax bill if you don't carefully handle the splitting up of qualified retirement plan accounts (such as a 401(k) plan) and IRAs. And if you own a business, the stakes are higher. Your tax advisor can help you minimize the adverse tax consequences of settling your divorce under today's laws.

"Because Accounting Matters"

THREE QUESTIONS YOU MAY HAVE AFTER FILING YOUR RETURN

Once your 2018 tax return has been successfully filed with the IRS, you may still have some questions. Here are brief answers to three questions that we're frequently asked at this time of year.

Question #1: What tax records can I throw away now?

At a minimum, keep tax records related to your return for as long as the IRS can audit your return or assess additional taxes. In general, the statute of limitations is three years after you file your return. So you can generally get rid of most records related to tax returns for 2015 and earlier years. (If you filed an extension for your 2015 return, hold on to your records until at least three years from when you filed the extended return.)

However, the statute of limitations extends to six years for taxpayers who understate their gross income by more than 25%.

You'll need to hang on to certain tax-related records longer. For example, keep the actual tax returns indefinitely, so you can prove to the IRS that you filed a legitimate return. (There's no statute of limitations for an audit if you didn't file a return or you filed a fraudulent one.)

Please see *Three Questions You May Have After Filing Your Return* on page 4

Three Questions You May Have After Filing Your Return **from page 3**

When it comes to retirement accounts, keep records associated with them until you've depleted the account and reported the last withdrawal on your tax return, plus three (or six) years. And retain records related to real estate or investments for as long as you own the asset, plus at least three years after you sell it and report the sale on your tax return. (You can keep these records for six years if you want to be extra safe.)

Question #2: Where's my refund?

The IRS has an online tool that can tell you the status of your refund. Go to irs.gov and click on "Refund Status" to find out about yours. You'll need your Social Security number, filing status and the exact refund amount.

Question #3: Can I still collect a refund if I forgot to report something?

In general, you can file an amended tax return and claim a refund within three years after the date you filed your original return or within two years of the date you paid the tax, whichever is later. So for a 2018 tax return that you filed on April 15 of 2019, you can generally file an amended return until April 15, 2022.

However, there are a few opportunities when you have longer to file an amended return. For example, the statute of limitations for bad debts is longer than the usual three-year time limit for most items on your tax return. In general, you can amend your tax return to claim a bad debt for seven years from the due date of the tax return for the year that the debt became worthless.

We can help ~Contact us if you have questions about tax record retention, your refund or filing an amended return. We're available all year long — not just at tax filing time!

I R S Corner

IRS WARNS TO AVOID THE REFUND MYTHS

The April tax filing deadline has passed, but tax-related myths on social media continue, warns the IRS. One such myth is this: If you received a tax refund this year, there is no need to adjust your 2019 withholding. To help avoid an unexpected tax outcome next year, taxpayers should use the IRS Withholding Calculator to make sure the right tax amount is being withheld. Make necessary changes now to prepare for next tax filing season, especially if you got unexpected results from your 2018 federal return.

FOR THOSE WHO DIDN'T FILE BY THE APRIL DEADLINE

There is no penalty for filing late if a refund is due. Penalties and interest only accrue on unfiled tax returns if taxes are not paid by April 15, the tax filing deadline this year in most states. Because of local holidays, the deadline for taxpayers living in Maine or Massachusetts was April 17, 2019.

Anyone who did not file and owes tax should file a tax return as soon as they can and pay as much as possible to reduce penalties and interest. IRS Free File is still available on IRS.gov through Oct. 15 to prepare and file returns electronically.

Some taxpayers may have extra time to file their tax returns and pay any taxes due. Some disaster victims, military service members and eligible support personnel in combat zones, and U.S. citizens and resident aliens who live and work outside the U.S. and Puerto Rico, have more time to file and pay what they owe.

For taxpayers whose 2018 federal income tax withholding and estimated tax payments fell short of their total tax liability for the year, the IRS provided penalty relief. This means that the IRS is now waiving the estimated tax penalty for any taxpayer who paid at least 80 percent of their total tax liability during the year through federal income tax withholding, quarterly estimated tax payments or a combination of the two.

WHAT HAPPENS TO THOSE WHO WAIT TO FILE?

Filing soon is especially important because the late-filing penalty and late-payment penalty on unpaid taxes adds up quickly under the law. Ordinarily, the failure-to-file penalty is 5 percent of the tax owed for each month or part of a month that a tax return is late; However, this penalty is reduced for any month where the failure to pay penalty also applies. The basic failure-to-pay penalty rate is generally 0.5 percent of unpaid tax owed for each month or part of a month. For more see IRS.gov/penalties.

But if a return is filed more than 60 days after the April due date, the minimum penalty is either $210 or 100 percent of the unpaid tax, whichever is less. This means that if the tax due is $210 or less, the penalty is equal to the tax amount due. If the tax due is more than $210, the penalty is at least $210.

In some instances, a taxpayer filing after the deadline may qualify for penalty relief. For those charged a penalty, they may contact the IRS and provide an explanation of why they were unable to file and/or pay by the due date.

Additionally, taxpayers who have a history of filing and paying on time often qualify for penalty relief. A taxpayer will usually qualify if they have filed and paid timely for the past three years and meet other requirements. For more information, see the first-time penalty abatement page on IRS.gov.