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THE VOS VOICE

"BECAUSE ACCOUNTING MATTERS AND WE KNOW IT"

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SUMMER: A GOOD TIME TO REVIEW YOUR INVESTMENTS

You may have heard about a proposal in Washington to cut the taxes paid on investments by indexing capital gains to inflation. Under the proposal, the purchase price of assets would be adjusted so that no tax is paid on the appreciation due to inflation.

While the fate of such a proposal is unknown, the long-term capital gains tax rate is still historically low on appreciated securities that have been held for more than 12 months. And since we're already in the second half of the year, it's a good time to review your portfolio for possible tax-saving strategies.

The federal income tax rate on long-term capital gains recognized in 2019 is 15% for most taxpayers. However, the maximum rate of 20% plus the 3.8% net investment income tax (NIIT) can apply at higher income levels. For 2019, the 20% rate applies to single taxpayers with taxable income exceeding $425,800 ($479,000 for joint filers or $452,400 for heads of households).

You also may be able to plan for the NIIT. It can affect taxpayers with modified AGI (MAGI) over $200,000 for singles and heads of households, or $250,000 for joint filers. You may be able to lower your tax liability by reducing your MAGI, reducing net investment income or both.

What about losing investments that you'd like to sell? Consider selling them and using the resulting capital losses to shelter capital gains, including high-taxed short-term gains, from other sales this year. You may want to repurchase those investments, so long as you wait at least 31 days to avoid the "wash sale" rule.

If your capital losses exceed your capital gains, the result would be a net capital loss for the year. A net capital loss can also be used to shelter up to $3,000 of 2019 ordinary income (or up to $1,500 if you're married and file separately). Ordinary income includes items including salaries, bonuses, self-employment income, interest income and royalties. Any excess net capital loss from 2019 can be carried forward to 2020 and later years.

Consider gifting to young relatives

While most taxpayers with long-term capital gains pay a 15% rate, those in the 0% federal income tax bracket only pay a 0% federal tax rate on gains from investments that were held for more than a year. Let's say you're feeling generous and want to give some money to your children, grandchildren, nieces, nephews, or others. Instead of making cash gifts to young relatives in lower federal tax brackets, give them appreciated investments. That way, they'll pay less tax than you'd pay if you sold the same shares.

(You can count your ownership period plus the gift recipient's ownership period for purposes of meeting the more-than-one-year rule.)

Even if the appreciated shares have been held for a year or less before being sold, your relative will probably pay a much lower tax rate on the gain than you would.

Increase your return

Paying capital gains taxes on your investment profits reduces your total return. Look for strategies to grow your portfolio by minimizing the amount you must pay to the federal and state governments. These are only a few strategies that may be available to you. Contact us about your situation.

THE PROS AND CONS OF INTERIM REPORTING

The Securities and Exchange Commission (SEC) requires certain public companies to publish quarterly financial statements to give investors insight into midyear performance. Though interim reporting generally isn't required for private companies, stakeholders in smaller entities can benefit even more than those of public companies from this type of information. But it's also important to understand the potential shortcomings.

Upsides

Interim financial statements cover periods of less than a year. They show how a company is doing each month or quarter.

If you think of annual financial statements as report cards for a business, interim reports would be like progress reports that may forewarn of troubles ahead — or reassure you that everything is going well. A lender or investor might request interim financial statements if a company:

- Has implemented a turnaround plan to avert bankruptcy,
- Has previously reported a major impairment loss,
- Is in an industry that is experiencing a downturn, or
- Is seeking new investors or applying for a loan.

These reports may provide peace of mind. Or they might signal impending financial turmoil due to, say, the loss of a major customer, significant uncollectible accounts receivable or pilfered inventory.

Early detection of such problems is critical for smaller businesses. While large public companies can often recover from a bad quarter or year, waiting until year end to discover these issues can be disastrous to a smaller business.

Downsides

Interim reports also have certain drawbacks and limitations. Unlike annual financial statements, interim financial statements are usually unaudited and condensed. So, when reviewing interim reports, revisiting last year's complete annual financial statements may be helpful. Also check that accounting practices are consistent between the interim and year-end financial statements.

Specifically, interim numbers may omit estimates for bad-debt write-offs, accrued expenses, prepaid items, management bonuses or income taxes. And sometimes tedious bookkeeping procedures, such as physical inventory counts, updating depreciation schedules and composing detailed footnote disclosures, aren't completed until year end. Instead, interim account balances often reflect last year's amounts or may be based on historic gross margins.

For seasonal businesses, there are operating peaks and troughs. So you can't multiply quarterly profits by four to reliably predict year end performance. Instead, you may need to benchmark current year-to-date numbers against last year's monthly (or quarterly) results.

For more information

If interim statements reveal irregularities, you should consider digging deeper to find out what's happening. Our accounting and auditing pros can help you address unresolved issues and determine an appropriate course of action.

"Because Accounting Matters"

IT'S A GOOD TIME TO BUY BUSINESS EQUIPMENT AND OTHER DEPRECIABLE PROPERTY

There's good news about the Section 179 depreciation deduction for business property. The election has long provided a tax windfall to businesses, enabling them to claim immediate deductions for qualified assets, instead of taking depreciation deductions over time. And it was increased and expanded by the Tax Cuts and Jobs Act (TCJA).

Even better, the Sec. 179 deduction isn't the only avenue for immediate tax write-offs for qualified assets. Under the

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100% bonus depreciation tax break provided by the TCJA, the entire cost of eligible assets placed in service in 2019 can be written off this year.

<u>Sec. 179 basics</u>

The Sec. 179 deduction applies to tangible personal property such as machinery and equipment purchased for use in a trade or business, and, if the taxpayer elects, qualified real property. It's generally available on a tax year basis and is subject to a dollar limit.

The annual deduction limit is $1.02 million for tax years beginning in 2019, subject to a phaseout rule. Under the rule, the deduction is phased out (reduced) if more than a specified amount of qualifying property is placed in service during the tax year. The amount is $2.55 million for tax years beginning in 2019. (Note: Different rules apply to heavy SUVs.)

There's also a taxable income limit. If your taxable business income is less than the dollar limit for that year, the amount for which you can make the election is limited to that taxable income. However, any amount you can't immediately deduct is carried forward and can be deducted in later years (to the extent permitted by the applicable dollar limit, the phaseout rule, and the taxable income limit).

In addition to significantly increasing the Sec. 179 deduction, the TCJA also expanded the definition of qualifying assets to include depreciable tangible personal property used mainly in the furnishing of lodging, such as furniture and appliances.

The TCJA also expanded the definition of qualified real property to include qualified improvement property and some improvements to nonresidential real property, such as roofs; heating, ventilation and air-conditioning equipment; fire protection and alarm systems; and security systems.

<u>Bonus depreciation basics</u>

With bonus depreciation, businesses are allowed to deduct 100% of the cost of certain assets in the first year, rather than capitalize them on their balance sheets and gradually depreciate them. (Before the TCJA, you could deduct only 50% of the cost of qualified new property.)

This break applies to qualifying assets placed in service between September 28, 2017, and December 31, 2022 (by December 31, 2023, for certain assets with longer production periods and for aircraft). After that, the bonus depreciation percentage is reduced by 20% per year, until it's fully phased out after 2026 (or after 2027 for certain assets described above).

Bonus depreciation is now allowed for both new and used qualifying assets, which include most categories of tangible depreciable assets other than real estate.

Important: When both 100% first-year bonus depreciation and the Sec. 179 deduction are available for the same asset, it's generally more advantageous to claim 100% bonus depreciation, because there are no limitations on it.

<u>Maximize eligible purchases</u>

These favorable depreciation deductions will deliver tax-saving benefits to many businesses on their 2019 returns. You need to place qualifying assets in service by December 31. Contact us if you have questions, or you want more information about how your business can get the most out of the deductions.

IRS CORNER

<u>IRS PROVIDES THESE SUMMER TIME TAX TIPS</u>

WASHINGTON — Buying a home? Working a summer job? Volunteering? Activities that are common in the summer often qualify for tax credits or deductions. And, while summertime and part-time workers may not earn enough to owe federal income tax, they should remember to file a return to get a refund for taxes withheld early next year.

Here are some summertime tax tips from the IRS that can help taxpayers during tax season next year:

- ***<u>Marital tax bliss.</u>*** Newlyweds should report any name change to the Social Security Administration before filing next year's tax return. Then, report any address change to the United States Postal Service, employers and the IRS to ensure receipt of tax-related items.

- ***<u>Cash back for summer day camp.</u>*** Unlike overnight camps, the cost of summer day camp may count as an expense towards the Child and Dependent Care Credit. See IRS Publication 503, Child and Dependent Care Expenses, for more information.

- ***<u>Part-time and summer work.</u>*** Employers usually must withhold Social Security and Medicare taxes from pay for part-time and season workers even if the employees don't earn enough to meet the federal income tax filing threshold. Self-employed workers or independent contractors need to pay their own Social Security and Medicare taxes, even if they have no income tax liability.

Normally, employees receive a Form W-2, Wage and Tax Statement, from their employer — even if they don't work there anymore — to account for the summer's work by January 31 of the following year. The Form W-2 shows the amount of earnings, withholdings for state and federal taxes, Social Security, Medicare wages and tips. Employees use the information on this form when they file their annual tax returns.

- ***Worker classification matters.*** Business owners must correctly determine whether summer workers are employees or independent contractors. Independent contractors are not subject to withholding, making them responsible for paying their own income taxes plus Social Security and Medicare taxes. Workers can avoid higher tax bills and lost benefits if they know their proper status.

Though the higher standard deduction means fewer taxpayers are itemizing their deductions, those that still plan to itemize next year should keep these tips in mind:

- ***Deducting state and local income, sales and property taxes***. The total deduction that taxpayers can deduct for state and local income, sales and property taxes is limited to a combined, total deduction of $10,000 or $5,000 if married filing separately. Any state and local taxes paid above this amount cannot be deducted.

- ***Refinancing a home***. The deduction for mortgage interest is limited to interest paid on a loan secured by the taxpayer's main home or second home that they used to buy, build, or substantially improve their main home or second home.

- ***Buying a home***. New homeowners buying after Dec. 15, 2017, can only deduct mortgage interest they pay on a total of $750,000, or $375,000 if married filing separately, in qualifying debt for a first and second home. For existing mortgages if the loan originated on or before Dec. 15, 2017, taxpayers continue to deduct interest on a total of $1 million in qualifying debt secured by first and second homes.

- ***Donate items***. Deduct money. Those long-unused items in good condition found during a summer cleaning and donated to a qualified charity may qualify for a tax deduction. Taxpayers must itemize deductions to deduct charitable contributions and have proof of all donations. Use the Interactive Tax Assistant to help determine whether you can deduct your charitable contributions.

- ***Donate time***. Deduct mileage. Driving a personal vehicle while donating services on a trip sponsored by a qualified charity could qualify for a tax break. Itemizers can deduct 14 cents per mile for charitable mileage driven in 2019.

- ***Reporting gambling winnings and claiming gambling losses***. Taxpayers who itemize can deduct gambling losses up to the amount of gambling winnings. Use the Interactive Tax Assistant to find out more about reporting gambling winnings and losses next year.

The last two tips are for taxpayers who have not yet filed but may be due a refund and those who may need to adjust their withholding.

- ***Refunds require a tax return***. Although workers may not have earned enough money from a summer job to require filing a tax return, they may still want to file when tax time comes around. It is essential to file a return to get a refund of any income tax withheld. There is no penalty for filing a late return for those receiving refunds, however, by law, a return must be filed within three years to get the refund. See the Interactive Tax Assistant, Do I need to file a tax return?

- ***Check withholding***. Newlyweds, summertime workers, homeowners and every taxpayer in between should take some time this summer to check their tax withholding to make sure they are paying the right amount of tax as they earn it throughout the year. The Withholding Calculator on IRS.gov helps employees estimate their income tax, credits, adjustments and deductions and determine whether they need to adjust their withholding by submitting a new Form W-4, Employee's Withholding Allowance Certificate. Taxpayers should remember that, if needed, they should submit their new W-4 to their employer, not the IRS.