

## *Seasons Greetings*

As we celebrate this holiday season, say goodbye to 2018 and prepare for 2019, we would like to say how grateful we are for your continued partnership and want to wish you peace and prosperity in the new year!

We would also like to take this opportunity to remind you that tax season is right around the corner.

We have been busy this year learning about the many changes that the Tax Cuts and Jobs Act (TCJA) brought us about this time last year. Some of the changes that will affect many of our clients are briefly discussed below.

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### **Hines and Company Engagement Letters**

**Please**

**DOWNLOAD, PRINT, FILL OUT AND SIGN OUR ENGAGEMENT LETTER**

and return with your tax information for each individual, trust, partnership, and/or corporate tax return.

[www.hinesandcompanypc.com/forms](http://www.hinesandcompanypc.com/forms)

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### **Hines and Company Deadlines**

In order to assure that your returns are completed on or before the due date, we must receive *substantially all* of your information as follows:

***January 10<sup>th</sup> – Payroll Tax Returns, W2s & 1099s for your employees/contractors***

***February 10<sup>th</sup> – Partnership, S-Corp returns***

***March 10<sup>th</sup> – C-Corp, individual & trust returns***

Additionally, if we are missing information for your return **10 days** prior to the return due date (March 5<sup>th</sup> for Partnership and S-Corp returns, April 5<sup>th</sup> for C-Corp, trust and individual returns), your return will be extended and completed after the deadline to allow us ample time to complete your return accurately.

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### **Photo ID and IP PINS Help Fight Identity Theft and Fraud**

Federal and state governments started asking that preparers request a copy of taxpayer's driver's license or state ID cards to e-file their tax returns to help combat identity theft and fight tax fraud. Some of the IDs that we have on file have expired, so if you have renewed your license/ID card in the past two years, please provide a copy of your new one, or have us copy it the next time you are in our office.

Additionally, if you receive a letter from the IRS with your 2018 Identity Protection PIN (IP PIN) number, please provide that number to us so we are able to e-file your tax return. You should receive a 2018 IP PIN if you have received one in the past or have filed ID Theft paperwork with the IRS.

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## Where's My Refund?

Beginning in 2017, a new law approved by Congress requires the IRS to hold refunds on tax returns claiming Earned Income Tax Credit (EITC) or the Additional Child Tax Credit (ACTC) until mid-February. The IRS must hold the entire refund – even the portion not associated with the EITC and ACTC -- until at least February 15th. For the 2019 filing season, the IRS expects refunds to start being direct deposited just after February 15th. This change helps ensure that taxpayers get the refund they are owed by giving the agency more time to help detect and prevent fraud.

As in past years, the IRS will begin accepting and processing tax returns once the filing season begins in late January 2019. All taxpayers should file as usual, and tax return preparers should submit returns as they normally do. Even though the IRS cannot issue refunds for some early filers until at least February 15th, the IRS reminds taxpayers that most refunds will be issued within the normal timeframe: less than 21 days, after being accepted for processing by the IRS. The [Where's My Refund?](#) tool on IRS.gov and the [IRS2Go](#) phone app remain the best way to find out the status of a refund.

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## What's New with the Child Tax Credit

Many people claim the child tax credit to help offset the cost of raising children. Tax reform legislation enacted last year made changes to that credit. Here are some important items for taxpayers to know about the changes to the credit:

- **Credit amount** The new law increases the child tax credit from \$1,000 to \$2,000. Eligibility for the credit has not changed. As in past years, the credit applies if all of the following requirements are met:
  - the child is younger than 17 at the end of the tax year, December 31, 2018
  - the taxpayer claims the child as a dependent
  - the child lives with the taxpayer for at least six months of the year
- **Credit refunds** The credit is refundable, now up to \$1,400. If a taxpayer doesn't owe any tax before claiming the credit, they will receive up to \$1,400 as part of their refund.
- **Earned income threshold** The income threshold to claim the credit has been lowered to \$2,500 per family. This means a family must earn a minimum of \$2,500 to claim the credit.
- **Phaseout** The income threshold at which the child tax credit begins to phase out is increased to \$200,000, or \$400,000 if married filing jointly. This means that more families with children younger than 17 qualify for the larger credit.

Dependents who can't be claimed for the child tax credit may still qualify the taxpayer for the credit for other dependents. This is a non-refundable credit of up to \$500 per qualifying person. These dependents may also be dependent children who are age 17 or older at the end of 2018. It also includes parents or other qualifying relatives supported by the taxpayer.

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## Expense Reimbursement Plans More Important than Ever

Unreimbursed employee business expenses ended up on the chopping block for 2018 – 2025 under TCJA. Employees who routinely incur substantial unreimbursed business expenses should consider talking to their employers about instituting an accountable plan to reimburse these expenses as they are no longer deductible on your tax return.

Companies that cover their employees' business expenses can either reimburse them for their actual expenses or pay a travel or mileage allowance. The tax treatment of these reimbursements and allowances depend on whether they are made in accordance with an accountable plan, which must meet specific requirements. If the reimbursement plan does not meet these requirements, the reimbursements end up in the employees' wages with no offsetting deduction.

If you would like to discuss how your business can set up an accountable plan for employee business expense reimbursements, please contact our office to discuss with your tax preparer.

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## 20% Deduction on Passthrough Businesses

The new deduction -- referred to as the Section 199A deduction or the deduction for qualified business income -- was created by the Tax Cuts and Jobs Act. The deduction is available for tax years beginning after Dec. 31, 2017. Eligible taxpayers can claim it for the first time on the 2018 federal income tax return they file in 2019.

The deduction is generally available to eligible taxpayers whose 2018 taxable income falls below \$315,000 for joint returns and \$157,500 for other taxpayers. It's generally equal to the lesser of 20 percent of their qualified business income plus 20 percent of their qualified real estate investment trust dividends and qualified publicly traded partnership income or 20 percent of taxable income minus net capital gains.

Deductions for taxpayers above the \$157,500/\$315,000 taxable income thresholds may be limited.

Qualified business income includes domestic income from a trade or business. Employee wages, capital gain, interest and dividend income are excluded.

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## Strategic Retirement Planning for Workers over 59½

Are you over 59½ and still able to contribute to your employer's 401(k) or similar retirement plan where your employer matches your contribution? If so, are you contributing enough to get the employer's full match?

Employees over 59½ can often withdraw their 401(k) balances without restriction or penalty, so it makes sense to contribute enough to get the company match and then immediately withdraw some of that money if you need it. You will pay taxes on the withdrawal, but you have increased your after-tax income courtesy of your company's match.

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## Business Expense Deduction for Meals and Entertainment

The 2017 TCJA eliminated the deduction for any expenses related to activities generally considered entertainment, amusement or recreation.

Taxpayers may continue to deduct 50 percent of the cost of business meals if the taxpayer (or an employee of the taxpayer) is present and the food or beverages are not considered lavish or extravagant. The meals may be provided to a current or potential business customer, client, consultant or similar business contact.

Food and beverages that are provided during entertainment events will not be considered entertainment if purchased separately from the event.

Prior to 2018, a business could deduct up to 50 percent of entertainment expenses directly related to the active conduct of a trade or business or, if incurred immediately before or after a bona fide business discussion, associated with the active conduct of a trade or business.

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## 2019 Standard Mileage Rates

The business rate is **58** cents per mile (up from 54.5 for 2018).

The charitable rate is **14** cents per mile.

The medical rate is **20** cents per mile (up from 18 cents for 2018).

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## Make Charitable Contributions from your IRA to Save Taxes

Retirees who are age 70½ or older can avoid paying income tax on IRA withdrawals of up to \$100,000 per year by doing with the IRS calls a Qualified Charitable Distribution (QCD). A QCD is a distribution from an IRA that is made directly from the trustee to the charitable organization. A qualified charitable distribution may be used to satisfy the minimum distribution requirement.

If you want to make a charitable contribution this way but only have a 401(k) or SEP/SIMPLE IRA, you can do a direct rollover of amount you want to contribute to a traditional IRA and then make the contributions from the traditional IRA.

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## Like-kind Exchanges now limited to Real Property

Effective Jan. 1, 2018, exchanges of personal or intangible property such as machinery, equipment, vehicles, artwork, collectibles, patents, and other intellectual property generally do not qualify for nonrecognition of gain or loss as like-kind exchanges. However, certain exchanges of mutual ditch, reservoir or irrigation stock are still eligible.

Like-kind exchange treatment now applies only to exchanges of real property that is held for use in a trade or business or for investment. Real property, also called real estate, includes land and generally anything built on or attached to it. An exchange of real property held primarily for sale still does not qualify as a like-kind exchange.

A transition rule in the new law allows like-kind treatment for some exchanges of personal or intangible property. If the taxpayer disposed of the personal or intangible property on or before Dec. 31, 2017, or received replacement property on or before that date, the exchange may qualify for like-kind exchange treatment.

Properties are of like-kind if they're of the same nature or character, even if they differ in grade or quality. Improved real property is generally of like-kind to unimproved real property. For example, an apartment building would generally be of like-kind to unimproved land. However, real property in the United States is not of like-kind to real property outside the U.S.

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## Tightening Documentation Requirements

As the IRS tightens controls to combat identity theft and tax fraud, documentation requirements have increased. As a result, we will be asking more questions and requiring additional information to prepare returns with education credits, earned income credits, child tax credits, Head of Household filing status, and health insurance.

### Education Credits

Education institutions are being required to provide not only the amount of tuition charged, but also the amount of tuition payments received during the year. Your 1098-T should reflect this amount in box 1, however not all schools are ready this year. ***If your school does not report the amount paid, we will need a schedule of payments in addition to the 1098-T.***

### Health Insurance

As in the past, we must have 1095-As for every month you or a dependent is on a marketplace insurance policy as your return must include a reconciliation of premiums and premium tax credits. Additionally, Please make sure you provide us with copies of each 1095-A/B/C form received for each individual shown on your tax return showing coverage for all 12 months of the year.

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## Tax Cuts and Jobs Act – Additional Changes

A few more – though not all – changes in the new tax law that warrant mentioning:

### Individuals

- Lower Tax Rates
- Higher Standard Deduction/Elimination of Exemptions
- Itemized Deductions No Longer Income-Limited
- Deduction of State and Local Taxes limited to \$10,000
- Elimination of Home Equity Interest Deduction
- Elimination of Investment Fees Deduction
- Elimination of Personal Casualty and Theft Loss Deductions (except for federally-declared disasters)

### Businesses

- Corporate tax rate flat 21%
  - Repeal of 20% corporate AMT tax
  - Doubling of bonus depreciation to 100%
  - New limits on NOL deductions
  - New tax credit for employer-paid family and medical leave (through 2019)
  - Elimination of Domestic Production Activities Deduction
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We hope your holidays are filled with family, friends and loved-ones who bring much joy and happiness. We look forward to working with you in the coming years!

***Here's to a happy, healthy and prosperous 2019!***

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