**EES Newsletter**
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# New SALT Rules Spice Up ’18 Returns
## First-time limits apply to deductions

Under the Tax Cuts and Jobs Act (TCJA), certain deductions have been eliminated or modified, including the write-off for state and local tax (SALT) payments. The changes are effective for 2018 through 2025. As a result, some taxpayers will be going on a SALT-free diet when they file their 2018 returns.

**Background:** Previously, many middle-to-upper income taxpayers itemized deductions in lieu of claiming the standard deduction. However, the TCJA limits the deduction for SALT payments to $10,000 annually, among other changes, while essentially doubling the standard deduction. Due to the combination of these provisions, the standard deduction on a 2018 return—$12,000 for single filers or $24,000 for joint filers—can easily exceed the itemized deduction amount you are eligible to claim.

Therefore, you may get no tax benefit for SALT payments on your 2018 return, even if you paid a high amount in taxes. For those taxpayers who are still better off itemizing, be aware of how the new rules work.

The deduction applies to any combination of (a) state and local property taxes **AND** (b) state and local income taxes **OR** state and local sales taxes. Typically, a taxpayer must pay property taxes on a home to the municipality where he or she resides. In all but nine states—Alaska, Florida, Nevada, New Hampshire, South Dakota, Tennessee, Texas, Washington, and Wyoming—income taxes are imposed on both wages and investment earnings, while taxpayers must pay sales tax on purchases when required by applicable state law in all but four states—Delaware, Montana, New Hampshire and Oregon.

Frequently, the amount you must pay for state and local income taxes is greater than the total amount you might claim for sales tax. However, if it suits your needs, you may choose to deduct sales tax under one of two methods:

**1. Actual expense method:** With this method, you deduct the actual amount of sales tax paid in 2018, based on the receipts and credit card statements you have kept. Although the actual expense method will often provide a bigger overall deduction than the second method, it requires diligent recordkeeping.

**2. Simplified method:** With the second method, which is less time-consuming, you simply deduct on amount based on a **special IRS table**. The table provides a specific amount for each state based on the size of your family. Icing on the cake: In addition to the amount listed for your state in the IRS table, you can increase your sales tax deduction by the amount of sales tax paid on the following:

- Purchase or lease of a motor vehicle;
- Purchase of a boat or aircraft; or
- Purchase or substantial addition or renovation of a home.

Thus, even if you are using the simplified method for a sales tax deduction, it is beneficial to keep records for these big-ticket items.

**Final thoughts:** The method you choose, and whether you are even claiming any deduction for SALT payments, depends on your personal circumstances. There are several key factors to consider, so seek professional guidance, when warranted.

## Is Time Running Out for Your FSA?
**Grace period deadline is approaching**

If your company maintains **flexible spending arrangements** (FSAs) for the healthcare expenses of employees, an important deadline may be looming: **March 15, 2019**. For many healthcare FSAs, this is the last day you can withdraw funds from the balance in your account for 2018.

**Background:** An FSA is funded with pre-tax dollars, so there are significant tax savings for employees. Furthermore, the employer does not have to pay Social Security and Medicare (FICA) taxes or federal unemployment (FUTA) tax on amounts that employees contribute to their FSAs. Those benefits may offset some or all of the administration costs of operating the plan. Thus, FSAs can be a "win-win situation" for employers and employees.

Distributions from healthcare FSAs that are made for **qualified expenses**—for example, the cost of LASIK surgery or braces for your children— are not subject to tax. But any withdrawals made for nonqualified expenses are fully taxable.

Under recent tax law changes, the amount that can be contributed annually to a healthcare FSA is limited. For 2018, the limit was $2,650. It is increasing slightly to $2,700 for 2019.

At the start of the year, employees must decide how much of their wages to allocate to their FSAs. Usually, this decision requires some advance planning, especially when you factor in the "use-it-or-lose it" rule. **How it works:** If an employee does not withdraw the funds remaining in the FSA before the end of the year, this amount is forfeited. However, if your firm provides a grace period, employees may take an extra 2½ months to use up their FSA funds. Therefore, the effective deadline for the 2018 plan year may be March 15, 2019.

Alternatively, an employer may allow an employee to carry over up to $500 of unused FSA funds to the next year. For instance, if an employee has $300 left over in a healthcare FSA from 2018, he or she can carry over the $300 to the FSA for qualified

expenses in 2019. But employers cannot permit both the grace period and the carryover rule— it has to be one or the other.

In addition, if a plan has a "run-out period," employees generally have up to 90 days beyond the end of the plan year to request reimbursements for expenses incurred during the previous plan year. After this time elapses, any remaining funds are forfeited. For a plan year ending December 31, 2018, the run-out period for filing claims ends on **March 31, 2019**.

**Best approach:** Check the balance in your healthcare FSA. If you have unused funds that will be forfeited after March 15, consider expenditures you might make at this time, such as contact lenses or first-aid kits. The money is yours, at least for now, so you may as well spend it. Also, if your plan includes a run-out period, submit claims before the end of March.

## How to Improve Workplace Etiquette
**When some employees behave badly**

Are you tired of co-workers who are rude, inappropriate or self-absorbed? In many places of business across the country— ranging from boardrooms to warehouse floors to cubicles—proper business etiquette is not being observed. What's more, bad behavior can sometimes lead to confrontation and even violence that may threaten a person's well-being and the business as a whole.

The first lesson to be learned is trite but true: People in glass houses should not throw stones. By making a conscious effort to improve your own manners, you can help **set the tone** for the workplace, especially if you are an owner or top manager of the company.

What else can you do? Don't accept inappropriate behavior as just a part of "doing business." Consider these **common sense suggestions** for employees:

- Put your cellphone on vibrate in meetings. Better yet, shut it off completely, especially if you tend to forget about it.

- Pay attention to the people in meetings, not your cellphone or other devices. Avoid scrolling through emails. Give your **complete attention** to the task at hand.

- Don't wear strong-smelling cologne or perfume if it can be helped. Dress appropriately for the business location.

- Stay home if you are sick. Do not risk spreading germs or otherwise affecting (not infecting) the workplace.

- Be on time for meetings. Reschedule meetings if you simply do not have enough time. It is rude to constantly keep people waiting.

- Stick to the schedule. If workers are just standing around and waiting for you, productivity suffers.

- Don't disturb others who are working. If you need to have a loud conversation or conference call, find a **private place**.

- Eat lunch or snacks in the break room if there is one. Don't infiltrate the workplace with strong food smells.

- Try to keep your voice level reasonable when you are in areas where others are congregating. This often applies to conversations in cubicles or hallways.

- Respect the property rights of others. That includes items hanging in a closet or stored in a refrigerator!

- Do not be so quick to fly off the handle. Not only is yelling and screaming usually counter-productive, it can be embarrassing.

If you are in a position of authority, how can you best deal with offenders? For starters, don't react with bad behavior of your own. Second, take the person aside in private and explain the problem without getting emotional or angry. Sometimes, a little sympathy can go a long way. Make it a point to **follow up** with the worker and commend him or her for any improvement.

Of course, there are no guarantees that bad or rude behavior will stop. If it continues or worsens, follow the procedures required by company policy, including involvement of the Human Resources (HR) department. Work with HR to find practical solutions for your business.

## Preserve Deductions for Charitable Gifts
**Observing strict tax return requirements**

What's the biggest tax deduction on your 2018 return? For many itemizers, it is the write-off for charitable donations on Schedule A. But these deductions are not automatic if you do not have the proper records to back up your claims. Here are several important reminders for this year's tax filing season.

**Monetary contributions:** Deductions for all monetary gifts, regardless of the amount, may be disallowed if the donor does not maintain either a bank record—including a cancelled check, bank statement or credit card statement—or a **written communication** from the charity indicating the donor's name, contribution amount and date of the contribution. Technically, this covers everything from million dollar grants made to a college or hospital to spare change donated during the holidays. **Note:** Under the Tax

Cuts and Jobs Act (TCJA), the deduction limit for monetary contributions is increased from 50% of adjusted gross income (AGI) to 60% of AGI for 2018 through 2025.

**Contributions of $250 or more:** The IRS also requires charitable donors to obtain a written acknowledgement from a charitable organization for gifts of $250 or more. The acknowledgement must be obtained by the time you file your tax return. It should include the amount of the check or cash donated, a detailed description of any property that was donated and the value of the benefit received if any goods or services were provided. However, you don't have to establish a value for "intangible religious benefits."

Contributions made through payroll deductions may be substantiated by pay stubs or a Form W-2. **Note:** Substantiation is not required if the recipient organization files a return with the IRS providing the information to be included in an acknowledgement.

**Quid pro quo contributions:** If you make a "quid pro quo" contribution (i.e., a contribution made partially or fully in exchange for goods or services) for an amount above $75, you must obtain a **good faith estimate** from the charity detailing the value of the benefit received. For example, say you attend a fund-raising dinner where the tickets cost $100 apiece and the dinner is valued at $40. The charity must provide a written statement limiting the deductible amount to $60 per ticket. But a written statement from a charity is not required if you receive token goods, minimal services or intangible religious benefits in exchange for your donation.

There are several other key points to keep in mind. For example, if you gave charitable gifts of property exceeding $500 in 2018, additional information must be attached to your tax return. If your donation for non-cash property exceeds $5,000, you must also provide an **independent appraisal** of the property's value. Note: Previously, such an appraisal was deductible as a miscellaneous expense, but the TCJA repeals miscellaneous expense deductions for 2018 through 2025.

**In summary**: The recordkeeping rules for charitable donations are tough. However, if you have the proper documentation, you still may be able to claim top-dollar deductions on your 2018 return.

**IRS Updates Standard Mileage Rates**

In lieu of deducting actual expenses, the IRS permits qualified taxpayers to deduct a flat rate based on miles traveled, plus related tolls and parking fees. These standard mileage rates are updated annually. For 2019, the rates are:

- 58 cents per mile driven for **business driving** (up 3.5 cents from 2018);
- 20 cents per mile driven for medical or moving driving (up 2 cents from 2018); and
- 14 cents per mile driven for charitable driving (the same as 2018).

**Note:** The rate for charitable driving can only be changed by an act of Congress.

**Facts and Figures**
**Timely points of particular interest**

**Government Shutdown**—Will the government shutdown delay **tax refunds** early in tax filing season? The IRS continues to say it is committed to meeting its obligations, but it will be difficult to process all returns in a timely fashion after the recent events. Also, operations at the IRS are further affected by the slew of new tax law changes taking effect for 2018 and a reduction in representatives able to assist taxpayers. We will continue to monitor developments.

**Smoke Signals**—At one time, smoking in offices and other places of work was common. As concerns about the **health effects** increased, including the dangers of second-hand smoke, the practice was generally limited to certain areas such as smoking lounges. Now the trend is to do away with smoking privileges at work entirely. Consider the optimal approach for your company.