EES Newsletter
January 2019

Make This a "Record" Tax Year
Meeting challenges from the IRS

The IRS generally requires taxpayers to shoulder recordkeeping burdens. If you have not kept the necessary tax records in the past— or if your methods have been inadequate— make it a New Year's resolution to improve in 2019.

The process will undoubtedly go smoother if you organize your records in a logical fashion. Also, using **electronic methods** may simplify matters.

Best approach: Start the New Year off on the right foot. The longer you wait, the harder it will be. In the worst case scenario, you won't have the records needed to support your claims when your tax return is filed, especially with the changes under the Tax Cuts and Jobs Act (TCJA).

Following are several ways you may be able to relieve some of the stress.

- Keep a diary or ledger to record those expenses that may be claimed as itemized deductions. Despite crackdowns by the TCJA, you still may be able to deduct mortgage interest expenses, charitable contributions, state and local income taxes, medical and dental expenses and disaster-area casualty losses, within certain limits. Maintain a separate diary for each category of expenses.

- Set up a **filing system** for expenses and income. You might keep infrequent items together in a separate folder. However, travel and meal expenses should be handled separately due to extensive substantiation requirements. In general, you must document the date, amount of the expense, the business purpose and other details (depending on the nature of the expenditure). Keep receipts for items of $75 or more.

- **Review your expenses** on a regular basis. It is much easier to utilize tax planning during the year if you know where you stand. For instance, you might total up the expenses recorded in your diary at the end of each quarter. If you wait until the year is over, it may be too late to take action.

- Store your records in a safe place. Even the best recordkeeping system does you no good if you cannot retrieve the records. Consider storing valuable documents in a fire-resistant strongbox or some other locker. You might keep check registers, credit card statements and the like in a safe deposit box.

- Adjust your system over time as needed. No matter what kind of recordkeeping system you adopt, try to remain flexible. A change in circumstances— for

example, the purchase of a home—may require changes in your setup. Reminder: The system is for your benefit, not your detriment.

Normally, the statute of limitations on IRS adjustments is three years. But the limit is doubled to six years for a return that omits 25% or more of an individual's income. And there is no time limit whatsoever if **fraud** is involved. To be on the safe side, it is often recommended that you hold onto your records for at least ten years.

Final words: Your professional tax adviser can provide valuable assistance. In addition, you can discuss tax-saving opportunities that may be available on your 2018 return.

Will You Miss These Tax Deductions?
New law changes for 2018 returns

Form 1040 has a different look this year. Thanks to the Tax Cuts and Jobs Act (TCJA), the standard deduction has essentially been doubled while certain deductions have been modified or eliminated. Due to these changes, which are generally effective for 2018 through 2025, you may be better off claiming the standard deduction on your 2018 return, even if you have itemized in the past.

Which deductions are we talking about? Here are several items of particular interest to many individuals and self-employed individuals.

State and local taxes: As before, an itemized deduction is available for any combination of state and local tax (SALT) payments of (1) property taxes and (2) income taxes or sales taxes. But the total SALT deduction for 2018 cannot exceed $10,000. This is a significant impediment for many taxpayers, especially those in high-tax states, and may result in a switch to the standard deduction.

Mortgage interest: Previously, you could deduct mortgage interest on the first $1 million of **acquisition debt** and the first $100,000 of **home equity debt**. But the TCJA reduces the threshold for new acquisition debt to $750,000 and eliminates the deduction for home equity debt after 2017. Note that a home equity loan may qualify as an acquisition debt if the proceeds are used for home improvements.

Casualty and theft losses: The TCJA wipes out the deduction for casualty and theft losses except for losses sustained in a federal disaster area. The prior rules for claiming losses, including the floor of 10% of adjusted gross income (AGI), continue to apply.

Miscellaneous expenses: You can no longer deduct miscellaneous expenses such as **employee business expenses** and certain **production-of-income expenses**. Previously, the deduction was limited to the excess above 2% of AGI.

Moving expenses: This deduction, claimed "above the line," is no longer available, except for certain military personnel. Also if an employer reimburses an employee for moving expenses, the reimbursements are taxable under the TCJA.

Alimony expenses: The above-the-line deduction for alimony (and the corresponding inclusion in taxable income) has been permanently eliminated. But the crackdown generally takes effect for divorce agreements or modifications made in 2019 or thereafter. For instance, if you paid alimony in 2018, you may still deduct the payments on your 2018 return.

Entertainment expenses: Under the TCJA, you generally cannot deduct costs that qualify as business entertainment. However, as clarified by recent IRS guidance, you may deduct 50% of the cost of qualified meals paid separately from other entertainment.

Section 199 expenses: The Section 199 deduction for qualified domestic production activity expenses has been repealed. As with most business-related provisions in the TCJA, this change is permanent.

Of course, the TCJA offsets these cutbacks with numerous other favorable tax provisions, including lower individual tax rates and a reduced AGI floor, from 10% to 7.5%, for medical expenses for the 2017 and 2018 tax years.

Finally, in conjunction with other changes, the TCJA repeals the **"Pease rule"** reducing the tax benefit of certain itemized deductions for high-income taxpayers. Unless Congress takes additional tax action, this rule will be reinstated in 2026.

Ten Bright Ideas About Brainstorming
How to improve your meetings

Is your business stuck in a rut? Are you looking for ways to generate more revenue and reduce expenses? You may decide to organize one or more brainstorming sessions to accomplish these goals.

Although brainstorming might lead to that "million dollar idea," it can also be a waste of time. Here are ten ideas for **improving your productivity**.

1. Choose a moderator. Designate one person to guide the process. Otherwise, it is easy to get off track or out of control. Select an authoritative figure who knows the project well, but will not be overbearing— it might even be you.

2. Identify the **main goals**. Set an agenda with a clear and concise explanation of your mission. If you don't set some parameters at the outset, you are likely to use up too much valuable time.

3. Get **outside input**. When you are constructing the team, add someone you might not normally include. This outsider can bring a fresh perspective to the mix. Fill out the roster with free thinkers and those who have close associations to the project.

4. Limit the time. Do not let brainstorming turn into a never-ending saga. Set specific times for sessions and a deadline for meeting the goals. This will help ensure that the team stays on track. Conversely, when it is appropriate, extend a session if ideas are flowing fast.

5. Keep good records. It may slow things down, but remember to keep notes during your brainstorming meetings. Every idea, whether it is good or bad, should be written down. Provide as many as details as the process will allow.

6. Do not pass judgment. Initially, you should strive for **quantity over quality**. Instead of shooting down an idea, discuss it and then move on to the next one. If someone is discouraged from speaking up, productivity may suffer.

7. Think outside the box. If there was ever a time to embrace the unusual, this is it. Encourage team members to open up to the possibilities no matter how outlandish they may seem. You may be surprised to find that practical solutions may evolve from impractical suggestions.

8. Encourage individuality. Do not allow your team to be drawn into a herd mentality. The moderator must watch for an overabundance of consensus thinking and steer the discussions accordingly. If it is appropriate, play the “devil’s advocate.”

9. Narrow the focus. The moderator should help funnel general ideas into more specific concepts. This means beginning with a shotgun blast that might be all over the place and ending up with a laser bream dedicated to a single thought. If practical, break into **smaller teams** when an idea crystalizes.

10. Aim for synergy. As you begin to winnow ideas, apply them to your company’s overall scheme. There could be a potential for creating some synergy within your operation or within the suggestions you have generated. When one idea dovetails with another, join them together .

None of these suggestions guarantee success, but implementing them should improve the chances. Learn from your mistakes and build on the positives.

IRS Provides Extra Estate Tax Protection
New regs on favorable exemption amount

The IRS has provided some estate planning comfort for well-to-do individuals.

Under the Tax Cuts and Jobs Act (TCJA), the estate tax exclusion was raised to $10 million, indexed for inflation. That provides plenty of leeway for most families. However, like many other TCJA changes for individuals, this provision is scheduled to "sunset" after 2025.

Now the IRS has issued **new proposed regulations** that say you can rely on the favorable estate and gift tax exemption amount after 2025 (*IR-2018-229, 11/20/18*).

First, take a step back to trace the evolution of the estate tax exemption. Generally, estate and gift taxes are calculated by using a unified rate schedule for taxable transfers of money, property and other assets. Any tax liability is determined after applying a credit based on the tax exclusion amount.

The credit is used first during your lifetime to offset gift tax. Any remaining credit is then available to reduce or eliminate estate tax your family would owe.

Going back to near the turn of the century, the exemption amount was $1 million, relatively small by today's standards. But the **Economic Growth and Tax Relief Reconciliation Act (EGTRRA) of 2001** gradually raised the exemption amount to $3.5 million, with a one-year reprieve from estate tax in 2010. Subsequent legislation bumped up the exemption amount to a high of $5 million.

Finally, the TCJA increased the exemption amount from $5 million to $10 million for 2018 through 2025, subject to inflation indexing. For 2018, the inflation-adjusted exemption is $11.18 million. (The IRS recently indicated that the exclusion amount for 2019 is $11.4 million.)

Note also that a **"portability provision"** was added along the way. This enables the estate of a surviving spouse to benefit from the unused portion of the exemption amount of a deceased spouse. Thus, a couple can effectively shelter up to $20 million from estate tax, indexed for inflation. (The total for 2019 is $22.8 million.)

However, barring any other changes in the tax law, in 2026 the exemption amount will revert to the 2017 level of $5 million (adjusted for inflation)

This could leave some individuals in a quandary. To address concerns that an estate tax could apply to gifts that are exempt from gift tax by the increased exemption amount after 2025, the IRS has issued new proposed regulations. The proposed regs provide a special rule that allows an estate to compute its estate tax credit using the higher of (1) the exemption amount applicable to gifts made during your lifetime or the (2) the exemption amount applicable on the date of death.

In effect, this gives you an "out" for large gifts made during the period of 2018 through 2025.

These new proposed regs should be factored into your overall estate plan. Consult with your estate planning advisers for your particular situation.

Tax Reality for Lottery Winners

Did you just win a lottery? Congratulations, but just be aware that Uncle Sam will want his “fair share” of the jackpot.

First, the current federal income tax withholding rate is 24%. Second, the winnings could push you into the **top 37% tax bracket**, especially if you are in line for a big payout. Third, you may also owe **state income taxes**, depending on the applicable law.

Contact your tax adviser to minimize the tax damages for your situation.

Facts and Figures
Timely points of particular interest

IRA Contributions—The deadline for making traditional and Roth IRA contributions for the 2018 tax year is **April 15, 2019**. No extension is allowed. If you qualify, you may be able to fully or partially deduct traditional IRA contributions of up to $5,500 for 2018 ($6,500 if you are age 50 or older). The IRS has announced that the IRA contribution limit for 2019 is $6,000 ($7,000 if you are age 50 or older).

Line of Succession—Succession planning for business owners is not just about naming the one person who will take over the reins when you retire. Consider that there should be a line of succession in case your **top choice** is unwilling or unable to do the job. In addition, your plan should refer to managers that you expect to move up in the ranks. Map out a comprehensive framework for the future.