EES Newsletter
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Seven Smart Mid-Year Tax Moves
Ideas for individuals and businesses

Believe it or not, we have almost reached the mid-point of 2019. Don't wait until the end of the year to implement tax-saving strategies for your family and small business. Here are seven tax-saving opportunities during the summer months.

1. Harvest capital gains or losses. The maximum tax rate for long-term capital gains remains at 15% or 20% for certain high-income taxpayers. When appropriate, realize capital gains to benefit from this special tax treatment. Conversely, if it suits your purposes, you might harvest capital losses instead. Capital losses offset capital gains plus up to $3,000 of ordinary income. Any remaining loss is carried over to next year.

2. Sweep up charitable deductions. Generally, itemizers can deduct the fair market value (FMV) of property donated to a qualified charitable organization if the property was owned longer than one year. For example, if you decide to clean out the basement, attic or garage during the warm weather, you might give used clothing and furniture in good condition to charity and then claim a deduction.

3. Secure fast business write-offs. Thanks to the Tax Cuts and Jobs Act (TCJA), your business may currently deduct the cost of qualified business property placed in service during 2019, up to an enhanced maximum of $1,020,000. In addition, the TCJA allows you to claim 50% "bonus depreciation" for qualified business property placed in service this year. But note that other special rules may apply (e.g., limits on business vehicles).

4. Go the distance. If you travel away from home on business, you may deduct your allocable travel expenses—including airfare, lodging and 50% of the cost of meals—as long as the **primary purpose** of the trip is business-related. But the number of days spent on business versus pleasure is critical, so monitor the time spent on activities.

5. Cook up a deduction. Previously you could deduct 50% of the cost of qualified business entertainment expenses. But the TCJA generally eliminates this popular deduction for small business owners. **Key exception:** If you host a summer barbecue or other employee outing, you can write off 100% of the event's cost if the entire workforce is invited.

6. Send the kids to camp. If your under-age 13 child attends a summer day camp while you work, the cost may qualify for the dependent care credit. Generally, the maximum credit is $600 for one child and $1,200 for two or more children. However, the cost of overnight camp does not qualify for this credit.

7. Avoid an underpayment penalty. The tax law requires you to pay tax through withholding and/or installment payments during the year. The next quarterly installment due date is **June 15.** To avoid a penalty for 2019, ensure that you pay at least (a) 90% of your current tax liability or (b) 100% of the prior year's tax liability. The latter figure is increased to 110% if your adjusted gross income (AGI) exceeded $150,000.

Of course, these are just seven possible midyear ideas to consider. Schedule a meeting with your tax advisor to discuss whether any of these ideas, or others, applies to your situation.

Is Estate Planning on the Menu?
Key issues for "sandwich generation"

Are you caught between the needs of young children and elderly relatives like your parents? If so, you are part of the growing segment of the population known as the "sandwich generation." In particular, it may be difficult to care for loved ones as they grow older and require more care. To compound the problems, elderly relatives may not have adequately addressed all of their estate planning needs.

The most practical approach is to set aside time for everyone involved—yourself, your spouse and any siblings you have—to discuss the main aspects. **Be careful:** This requires a frank-and-honest dialog about sensitive issues. What's more, relatives may regard this as an intrusion. Emotions could even boil over, so it is imperative for cooler heads to prevail.

Following are several critical estate planning elements to consider.

Will: If a legally valid will has been devised, your relative's assets will generally be distributed in the manner in which he or she wishes. Have the will reviewed periodically. Because an existing will could be outdated, it may need to be revised to reflect changes in personal circumstances or the applicable law.

Financial documents: Take an inventory of all the key documents pertaining to the relative's financial affairs. This might include bank account records, life and disability income insurance policies, financial statements, retirement plan and IRA documents and so on. Make sure you assemble all the pertinent information—such as names of key contacts, their addresses and policy numbers—in a protected file. Print out a copy for the relative.

Investments: Similarly, you should create a clear picture of the relative's investment portfolio. Assemble all the relevant information in one place. When possible, do not forget to include records showing the tax basis of securities that your relative acquired years ago. At the same time, reexamine his or her holdings in light of advancing age, economic conditions and risk tolerance.

Tax records: As with other financial and investment documents, you should have easy access to the tax records of relatives such as your parents or in-laws. For instance, do you do know where they keep copies of their personal returns for the last few years, business filings and other tax documents? Who has been preparing their tax returns? It can be helpful to bring these practitioners into the loop.

Health care: This can be a particularly touchy subject, so tread carefully. Establish guidelines in the event an elderly relative is disabled or suddenly loses a spouse. For instance, you should determine if there is a preference for home health care, a nursing home, a continuing-care retirement community or some other living arrangement with a family member. Even if the relative is currently in good health, it makes sense to investigate the possibilities. Finally, a relative may adopt a “living will” or other health care directive to address end-of-life decisions.

This is just a short list of topics to discuss. Other arrangements for affluent individuals, including **trusts** and sophisticated tax-favored accounts, may play a prominent role. When appropriate, seek guidance from your professional advisors.

Salvaging a Casualty Loss Deduction
How to navigate current tax rules

Hurricane season is already in full swing and other acts of Mother Nature—including floods, earthquakes and tornados—may damage personal property like your home. In the past, you could have qualified for a limited casualty loss deduction on your tax return if you were not “made whole” by insurance. But the Tax Cuts and Jobs Act (TCJA) generally eliminates casualty and theft loss deductions for 2018 through 2025.

Silver lining: Under the TCJA, you can continue to deduct casualty losses for damage occurring in **federal disaster areas**, subject to the usual limits imposed by the tax law. In fact, you might benefit from a special rule enabling you to obtain a quick tax refund.

Previously, casualty and theft losses were available for personal property damage caused by an event that was “sudden, unusual or unexpected,” including the aforementioned natural disasters, as well as fires, vandalism and even auto collisions. However, the deductible amount was limited to the excess above 10% of adjusted gross income (AGI), after subtracting $100 per event.

Example: Say that a married couple has an annual AGI of $100,000. A severe storm caused extensive damage to their home, valued at a loss of $15,000 after insurance reimbursements were made. Because of the 10%-of-AGI/$100 floor rules, their deduction was limited to $4,900 ($15,000 – 10% of AGI - $100). The loss generally had to be claimed on the tax return for the tax year in which the damage occurred.

Now many victims of storms and other catastrophic events may not benefit from any casualty loss. Yet, despite what you may think, the prior rules still apply if the loss to personal property is attributable to damage in a federal disaster area, as declared by the president. For instance, this may have provided some tax relief last year to victims of events like Hurricanes Michael and Florence. And here is the kicker.

Special rule: Under a unique provision in the tax code, a taxpayer may claim a casualty loss suffered in a federal disaster area on the tax return for the year **preceding** the year in which the casualty actually occurred. This might provide a desperately needed quick tax refund in a pinch. For instance, suppose your vacation home is destroyed by a mudslide in a designated federal disaster area. Instead of waiting to file your 2019 return to claim a casualty loss—in 2020—you may file an amended 2018 return claiming the loss right now.

Finally, remember that the TCJA only suspends deductions for losses to **personal property**. There are no such restraints or dollar limits—including the 10%-of-AGI/$100 floor rules—for **business property** losses. As under prior law, those remain fully deductible. Contact your professional tax advisor for assistance relating to any personal or business losses.

Don't Ignore Threat of Embezzlement
Steps for protecting your company

It seems to be in the news every other day: A trusted long-time employee is found guilty of embezzling money from his or her employer. This may give you a momentary pause, but then it is likely that you will simply continue to go about your business. After all, this cannot happen to you. Or can it?

Of course it can. Employee embezzlement comprises the majority of ordinary business losses suffered by employers each year. What's more, the figures are staggering. According to the National White Collar Crime Center, it is estimated that employee and theft embezzlement cost businesses and organizations **$400 billion per year**.

How can you best protect your company? A good place is to start with an examination of your bookkeeping procedures. Be sure to completely separate the accounts payable from the accounts receivable. In addition, have at least two employees handle the payroll—one to write the checks and the other to distribute them. If only one person is assigned both of these critical jobs, it may create an irresistible temptation to embezzle.

Furthermore, the owner of a small business should approve all checks over a certain amount. Payments should be made with an original invoice, not a copy. Have all bank statements reconciled and audits performed periodically.

Even with these safeguards in place, there is no guarantee that you will not be victimized. What should you do if you find out an employee has embezzled from the company? Here are a few **practical suggestions** to follow:

- Consult with an attorney to find out the civil and criminal legal remedies that may be available to you. For instance, you might sue the employee to recover the embezzled money.

- Contact the authorities. Frequently, owners feel partly to blame for allowing the theft to take place, but hiding it does no good. In most cases, the employee will then move on to the next victim and you will be left holding the bag.

- Try to recover the funds. Reporting the crime does not mean you will be reimbursed in full. Before paying claims, insurance companies want solid proof of embezzlement, which is not always easy to provide. For example, when inventory is stolen, it is hard to show that the loss is actually theft and not an inventory mistake.

- **Notify the IRS** about the embezzlement. This becomes an added incentive for the employee to make restitution, since embezzled funds are considered to be taxable income. If you report the crime to the IRS, the employee will owe tax on the total amount stolen. This amount will be reduced to the extent that the employee makes restitution. If your business involves sensitive matters or security is a critical issue, you might obtain a bond to cover your employees.

Be aware of the possibility of employee embezzlement. Do what you can to discourage potential problems before they occur. Finally, keep your eyes and ears wide open at all times. The threat is real.

Elevator Speech: Push the Right Buttons

If a business associate or client wants a reason to follow your advice, they may ask for your "elevator speech." **What this means:** You should be able to outline the main points of a proposition in about the length of time it takes to ride an elevator from the lobby to the top floor of your business building.

An elevator speech may be used to promote a specific project, your overall operation or even yourself (i.e., a verbal resume). Be prepared to deliver one at a moment's notice.

Facts and Figures
Timely points of particular interest

ID Theft—Identity theft of taxpayer data remains a concern, but at least the IRS is seeing some progress in deterrents. It recently said that reported cases were down 71% in 2018 from 2015. Furthermore, IRS computers prevented $3.1 billion in refunds from wrongly going out on almost 650,000 returns. The IRS cites **anti-fraud methods** being used to filter out fake returns as the main reason for the decline, but concedes more work must be done.

Overtime Pay—The standard rule for overtime pay is that employees must be paid at a rate of one-and-a-half times their regular rate. While the regular rate includes salary, other payments may be open to interpretation. Now the Department of Labor (DOL) has proposed a change in the definition of “regular rate” that specifically excludes other items. We will keep you posted on developments relating to the DOL proposal.