ATA INC. Accounting & Tax Associates of Rochester Inc.
1700 N. Broadway, Suite 106 • Rochester, MN 55906
(507) 281-5128

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Happy New Year and Welcome to 2019! Lots of news about Federal and MN changes ahead☺

JoAnn Schoen EA, Marcia Cochran AFSP, Tom Eberhard EA, Jo Powell AFSP, Pat Radich CPA, and Jean Zabinski AFSP will be here to help you again this year. There are *many significant* changes. As a result you can expect our fees to reflect a 10% -30% increase depending upon your situation.

Everyone seems to think that the new *'postcard'* return will make income tax preparation easier! Not true. The recurring theme in all our continuing education classes this year has been the 20% increase in preparation and review time to properly complete your Federal return. To complicate your taxes further, MN did not accept **any** of the Federal changes!! (MN will have their own personal exemption amount and standard deduction or itemized deduction calculations, no longer following the Federal return.)

The ability to itemize deductions on your Federal return has been dramatically decreased. The new Federal law provides a much larger standard deduction while removing personal exemptions. However we still need to gather the information for your medical, tax, mortgage interest, charity and other deductions in order to apply the new rules, and to complete your state tax return. Also, a change has occurred on Home Equity loans and 2nd mortgages, *most of which are no longer deductible*. In order to get your largest deduction, we will need to know much more information on these amounts than in the past, such as amounts borrowed and use of funds. No loan was 'grandfathered in' so this information will be needed for all loans. *Remember we still may itemize on the MN return since MN laws did not change.*

The new Federal withholding tables were designed to lower your total tax withheld, giving you a bigger paycheck throughout the year. Unfortunately, these tables were not designed to give you a refund at year end, and for those of you that did not review your withholding, your refund may be very small (if any) because you already received bits and pieces through larger paychecks. We may need to review your withholding choices for 2019 to have the result you want when filing your 2019 return.

There are literally hundreds of other changes, extensions and deletions that we consider while preparing your return. The last two pages give highlights of some of the more significant changes.

Please have your tax information in to us no later than **March 20, 2019**. We understand that some K-1s from investments may not be available prior to that date. Rest assured that we will utilize our best resources to provide you with timely, complete, and accurate service while keeping your tax burden to the lowest legal amount.

Review the ATA Tax News & Tips you received in December for more changes affecting 2018 and to help you compile your 2018 tax information for your tax appointment. (We hope you are using that newsletter as a resource year round.)

Be sure to fill out your organizer completely before your appointment. **<u>If you do, we will lower your tax preparation bill by $10. This credit is available to all appointments and drop-offs BEFORE MARCH 7, 2019.</u>** We need you to answer all the questions on page three of the organizer so we don't miss something important. Remember, we pay you to do it!!

Things to remember:

1. Be sure to bring along any correspondence you may have received from the IRS or the State of Minnesota this past year if you had not already forwarded to ATA.
2. Check out our website at **atarochester.com** for all sorts of information. We will try to post news throughout the year and make fact sheets, organizers, and other tax aides available for you to download and use. Check it out. Please use this email address...**ata@atarochester.com**.
3. Because of security issues surrounding your personal information, ATA will not accept files attached to an email without your prior notification. You can use our atarochester.com website to send files securely. We also need prior permission to talk to outside parties including family members, mortgage lenders, financial professionals, etc. Safely store the folder we give you. There is a $25 fee for providing a replacement pdf or paper copy of your return
4. The filing deadline to submit 2018 tax returns is Monday, April 15, 2019. ATA will not have any available appointments after April 2nd. We will accept drop offs after April 2 with no guarantee the return will not be extended. **A $100 fee for filing an extension will be required and applied to the final bill.**
5. ***Children/Student Tax Returns***-Have a tax return discussion with your college age dependents. Under absolutely no circumstances should you allow your dependent children or college students to file their own returns without this discussion. We *should* file their return because the Affordable Care Act still is the law. Allowing a child to file their own return, particularly a student, can cost the child and parent literally thousands of dollars in Health Care penalties and/or credits. Our fee for filing dependent returns is minor in relation to the issues it causes if done incorrectly.
6. ***FYI for MN:*** Let us know if you contributed to a Section 529 Plan. Minnesota residents (grandparents included) that contribute to any Section 529 College Savings Plan may be eligible for a Credit or deduction. We will need the account information as well as amount contributed.
7. **Donating to Nongame Wildlife: Don't forget to donate any amount to the Nongame Wildlife Program on your MN tax return. It's deductible as a charitable contribution!!**

Call 507 281-5128 early for an appointment. The appointment option is a standard **25**-minute appointment. You may want to consider a pick up appointment and dropping your information off first for us to prepare your return. A secure mail slot is located on the archway post outside our building (*Entrance B*) for after hours. We will call you to clarify questions you may have in order to ensure an accurate tax return in which all the deductions you are entitled are being claimed.

A Special Note: *If you are ill on the day of your appointment, we would appreciate that you reschedule your appointment or drop off your information. In this season of flu and colds, we do not want to transfer illness to you or receive any from you. Thank You!!*

• **We welcome referrals** and will discount your tax return **$25** for each referral who becomes our client. We value your patronage and support.

Don't forget --- 2018 4th Qtr. ESTIMATED TAXES ARE DUE JANUARY 15, 2019!

2018 Changes due to the Tax Cuts and Jobs Act (TCJA)

On December 22, 2017, the President of the United States signed into law major tax reform in the Tax Cuts and Jobs Act (TCJA). The TCJA made widespread changes to the Internal Revenue Code which will affect your 2018 tax return. Here are some of the more common changes that could affect your tax return.

Changes affecting most taxpayers

Personal exemption rate is reduced to zero. Prior to 2018, a personal exemption amount of over $4,000 per person could be used to reduce taxable income. This personal exemption amount has been reduced to zero for 2018 through 2025.

Standard deduction increase. The standard deduction for most returns has been almost doubled over the amount that was allowed last year. The deduction for Single and Married Filing Separately returns is $12,000, Head of Household returns is $18,000, and Married Filing Jointly and Qualifying Widow(er) returns is $24,000. The additional amounts for being over 65 or blind will still be allowed. Because of this change, this year many taxpayers will find that claiming the standard deduction instead of itemizing deductions will give them a lower tax.

SSN Required for Child Tax Credit (CTC). An SSN is now required to claim CTC. No credit will be allowed for any qualifying child unless the taxpayer provides that child's SSN or a Work Authorization Permit from Homeland Security. Prior to this year, CTC could be claimed for a child who had an ITIN.

Increase in CTC. The Child Tax Credit has been increased from $1,000 to $2,000 for 2018. The modified adjusted gross income threshold where the credit is phased out is $400,000 for joint filers and $200,000 for all others (up from $230,000 and $115,000, respectively), so many more taxpayers will be able to claim this credit. The maximum age for a child eligible for the credit remains 16 (at the end of the tax year).

New Credit for Other Dependents (ODC). Beginning in 2018, a new $500 credit is available for dependents who do not qualify for the CTC. Most dependents listed on the tax return who do not qualify for CTC will now qualify for the smaller ODC, including parents who are claimed as dependents.

Changes to itemized deductions

Medical. For taxpayers of all ages, the deduction threshold for medical expenses is 7.5% of AGI.

State and local taxes (SALT). There is a cap on the deduction for state and local taxes paid. The deduction for state and local income taxes, real estate taxes, and personal property taxes combined is limited to $10,000 per return, ($5,000 for Married Filing Separately returns).

Limitation on deduction for home mortgage interest. You may be able to deduct mortgage interest only on the first $750,000 ($375,000 if married filing separately) of indebtedness. Higher limitations apply if you are deducting mortgage interest from indebtedness incurred on or before December 15, 2017.

No deduction for home equity loan interest. No matter when the indebtedness was incurred, you can no longer deduct the interest paid on a home equity loan unless loan proceeds were used to buy, build, or improve your home.

Limitation on the deduction for casualty and theft losses. You can no longer deduct a personal casualty or theft loss unless the loss occurred in a federally declared disaster area.

Deductions for employee business expenses eliminated. One of the biggest changes under this new law was the elimination of the deduction for unreimbursed employee business expenses beginning with 2018 tax returns. This effectively means that employees will no longer be able to offset their taxable income by common business expenses they incur. (This change under the TCJA does not affect self-employed individuals.)

Form 2106, Employee Business Expenses, is now to be used only for certain categories of employee:

- Qualified performing artists
- Fee-based state or local government officials
- Armed forces reservists
- Employees with impairment-related work expenses

Standard mileage rate. The 2018 standard mileage rate is 54.5 cents per mile for business miles.

Additional changes

Moving expenses. Beginning January 1, 2018, moving expenses cannot be deducted by most people. Active duty members of the U.S. Armed Forces who move pursuant to a military order and incident to a permanent change of station can still deduct moving expenses and exclude reimbursed moving expenses. Additionally, most taxpayers cannot exclude employer reimbursements for moving expenses from income.

Qualified Business Income Deduction (QBID). A new deduction for qualified business income from a trade or business, including sole proprietorships, S corporations, or partnerships, is available on Form 1040. QBI doesn't include W-2 wages. The deduction is subject to many limitations, such as income level and type of business. If you have QBI, you can reduce your taxable income, whether you itemize deductions or claim the standard deduction. In its simplest form, if adjusted gross income is under $157,500 ($315,000 for joint filers) you can deduct 20% of your QBI from income before computing your tax.

Alternative Minimum Tax (AMT). Fewer taxpayers will be subject to AMT due to increased exemption amounts and phaseout thresholds.

Certain ITINs expired. As of December 31, 2018, ITINs with middle digits "73," "74," "75," "76," "77," "81," or "82" in the fourth and fifth positions have expired. The ITIN must be renewed if it will be included on a federal tax return filed in 2018.

Depreciation changes. There are numerous changes to how depreciation can be claimed on assets purchased during 2018. Many assets can be entirely written off in 2018 rather than being depreciated over several years.

Healthcare Mandate Penalty Repealed for 2019. Beginning in 2019, individuals who fail to carry health insurance will no longer be required to pay an individual shared responsibility payment with their tax return.

We look forward to helping you get the most benefit from these tax law changes. Please contact us for more information.