

# ClientLine®

January 2019

## BE PREPARED

Your accounting professional is only as good as the information you provide. So, if you want to find all the deductions and credits you're entitled to, it pays to come prepared when you two meet.

### FOR BUSINESSES

If you own a business, discuss with your accountant a list of documents and other information needed for thorough tax preparation. This list may start with last year's income tax returns (if you're a new client). You may also need copies of estimated federal and local income tax payments, and of other business taxes like payroll, sales and excise levies.

If you were an independent contractor or hired one, bring with you copies of the 1099-MISC documents. If you received 1099 income but didn't get a statement, you are still responsible for reporting the amount and paying tax on it.

Don't forget to keep supporting documents for your business expenses to back up any deductions you take. Depending on your firm's legal structure, you'll want to total employee costs such as Social Security and other payroll taxes, insurance premiums and employee benefits. Expenses incurred as a cost of doing business will range from rent or mortgage payments to the cost of goods you sell, and

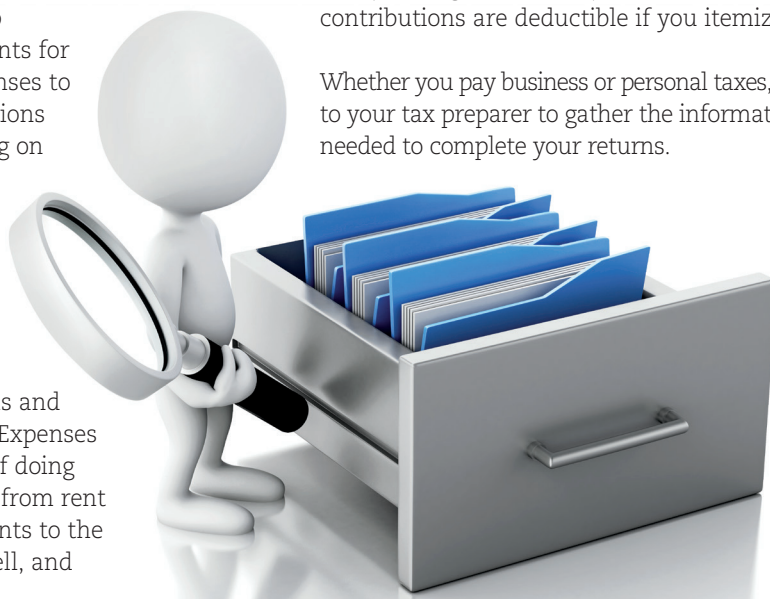
they may include marketing, legal and accounting costs.

### FOR INDIVIDUALS

If you use a tax professional to file your personal income tax returns, you should provide wage statements such as W-2 and 1099 forms, and tax statements for your investment, retirement and bank accounts.

On the expense side, some federal tax deductions were eliminated, but mortgage interest and real estate taxes up to certain limits can still reduce your taxable income. Unreimbursed healthcare costs (exceeding 7.5% of adjusted gross income) and charitable contributions are deductible if you itemize.

Whether you pay business or personal taxes, talk to your tax preparer to gather the information needed to complete your returns.



# RUSK

**& Company, P.A.**  
Certified Public Accountancy

Michael H Rusk, CPA  
mrusk@ruskcpa.com  
Tel: 410-821-8700  
Fax: 410-821-8701  
www.ruskcpa.com

Accounting, Audit,  
Tax Planning &  
Preparation,  
Financial Planning

### Depreciate Now Or Later

You will find a major new change for tax year 2018, allowing 100% depreciation of many big business expenses, including computers, tools, vehicles and other assets. This doesn't mean, however, that you *should* take the full allowable deduction.

### Offset 2018 Income

If 2018 was a very successful year and you also made a qualified large purchase last year, you can reduce your business' taxable income by depreciating the asset 100% during the year of purchase, if you choose.

### Offset Future Income

If, however, your business earns a predictable profit each year or you expect subpar profits in the near term, you might consider straight-line depreciation, which depreciates an asset over its expected useful life. For example, if you buy a delivery vehicle you expect to swap out in five years, depreciate it 20% per year over that time. Talk to your tax professional to learn more.



# WHEN FIXED ANNUITIES MAKE SENSE

If you're risk-averse, are concerned that investments in stock or bond mutual funds may lose principal or you're looking for some guarantees in retirement, a fixed annuity\* may be one answer.

## WHEN YOU WANT CERTAINTY

If your only guaranteed income in retirement is Social Security and your employee retirement plan doesn't offer an annuitization option, a fixed annuity can provide one avenue of dependable income in retirement. While fixed annuities are backed by the financial strength of the insurance companies issuing them, the guaranty fund of your state guarantees them up to certain limits if the insurer can't meet its obligations.

A fixed annuity grows tax-deferred, so you are not taxed on gains until you begin withdrawals, and it offers payment options called "period certain," which is the number of years specified in your contract. You may also choose a lifetime benefit option at an extra cost, which will last as long as you do.

## WHEN YOU ARE UNINSURABLE

You might also buy a fixed annuity to provide a financial legacy to loved ones or as a way to pay for your potential long term care costs, in the event health makes insurance unaffordable or unavailable. While annuities offer certain advantages, they can be costly (see the disclaimer below), so make sure to compare annuity contracts from financially strong insurance companies with the help of a financial professional.

*\* An annuity may impose charges, including but not limited to surrender charges, mortality and expense risk charges, administrative fees and underlying fund expenses. You will have to pay federal income tax on any earnings you withdraw from the annuity. Payments and guarantees are subject to the claims-paying ability of the issuing insurance company.*

## Client PROFILE ....

**Melissa runs a home kitchen-based business making fruit preserves and other sweets, selling them online and via mail order. She has no employees yet, but wonders about other types of insurance coverage her business might need.**

Melissa should start with health insurance and a retirement account, two benefits she can buy for herself even if she doesn't have other employees. She might explore a high-deductible health insurance policy and pair it with a triple tax-free Health Savings Account (HSA). She can also contribute to a Simplified Employee Pension (SEP) or 401(k) plan, which offer tax-deferred growth.

Depending on her business structure, Melissa could deduct a variety of benefits' costs, from company-paid premiums to administrative

expenses. Other risks may include product liability and cyberthreats, from which insurance can protect her financially.

Melissa can learn more about leveraging business dollars to purchase employee benefits and insurance by talking with her tax and insurance professionals.

*Client Profile is based on a hypothetical situation. The solutions discussed here may or may not be appropriate for you.*

# 3 BUSINESS BENEFITS OF NEW YEAR'S RESOLUTIONS

If you own a business, why not consider the following off-the-beaten-path ideas?

## WHEN DISASTER STRIKES

As cybercrimes increase, you need to have a disaster recovery plan. You may be a single-person business that needs only to back up files to tape or the cloud, but you need to have virus and malware software to protect your customers, whose information you have. Doing without can cost you big time. Protecting yourself can save you on insurance and other costs.

## LESS IS MORE

If your business tends to keep its employees plugged in 24-7, consider

the benefits of unplugging. Have employees unplug from all their work technology (including the Internet and their business cell phone) a couple of hours each day. Down time can help refresh your employees, lower stress, increase productivity and potentially lead to lower healthcare costs.

## ACKNOWLEDGE EXCELLENCE

The best way to keep top employees happy and shrink hiring costs is to acknowledge them through word and deed, the latter including total compensation costs.

# 3 PERSONAL BENEFITS OF NEW YEAR'S RESOLUTIONS

Save more for retirement. Make sure you have enough life insurance. Put money into a college savings account. This is all good advice most people should heed, but old news.

This year, why not consider the unexpected financial benefits for individuals who make the following New Year's resolutions:

## INCREASE YOUR STEPS

More people are wearing smart watches to monitor their heart rate, exercise and steps. Studies show increasing steps and, for that matter, standing more often may help people lose weight, lower blood pressure and reduce diabetes risk. Investing in — and using — this technology can help lower your healthcare and insurance bills and may even get you a discount on your employer's plan, depending on your company and its insurer.

## SHOP FOR EXPERTISE

Learn more about your current job and increase your marketability — and financial prospects — by shopping the Internet for courses that can help you learn more about everything from business writing to public speaking. Some courses, including from name-

brand universities, may be free when not for credit.

## CREATE AN EMERGENCY FUND

If you don't have at least six months' cushion via an emergency fund, consider the costs of not having one. If you have major car or home repairs, for instance, paying for repairs with a loan or credit card will cost you interest on top of principal. And interest rates have risen over the past few months.



## .... Q&A

Q

I just signed up for Medicare Part D, the prescription drug benefit, and I'm confused about the "donut hole," the coverage gap. Can you explain?

A

The donut hole, or coverage gap, occurs once you reach Medicare Part D's initial coverage limit of \$3,820 in 2019 and ends when you reach \$5,100 in out-of-pocket costs. Patient costs in this gap used to be more than half the cost of prescriptions, but those costs are reduced in 2019. You still have deductibles and co-pays, and Part D plan costs differ widely, so talk to your health insurance professional and go to [www.medicare.gov](http://www.medicare.gov) for more information.

Q

I'd like to start a non-profit organization, to which contributions would be tax-deductible, to feed families in financial stress. How do I go about starting a 501(c)(3) organization?

A

First, you should meet with an experienced attorney and your tax professional to create a plan describing the goals of your organization. Creating a 501(c)(3) non-profit involves filing for a business name and incorporating with the appropriate agency in your state. Once these are established, you'll need to pay a fee and file a 501(c)(3) application with the IRS to gain tax-exempt status. Other items to attend to include naming officers and a board of directors, drafting bylaws, and establishing written rules and procedures for running your non-profit.

## ClientLine® SHORT BITS...

### > **SMALL BUSINESS CONFIDENCE IS**

**HIGH.** During the third quarter of 2018, the CNBC|SurveyMonkey Small Business Confidence Survey registered a 62, an all-time record. The survey found that 58% of small business owners say current conditions for their businesses are good, while a record 33% expect to hire additional fulltime workers.

> **COLLEGE PAYS.** You probably know that college graduates typically average significantly more earnings over a lifetime, but they benefit in another way, too: They

are more likely to keep their jobs. The unemployment rate in August 2018 was 2.1% for people age 25 and older with a bachelor's degree or more. This compares (for the same period and age group) to 3.9% for those with some college and 5.7% for those with no college but a high school diploma. The overall national unemployment rate (age 16 and older) was 3.9% in August 2018. In every category, the jobless rate dropped over the past year.

### > **SMALL BUSINESS NOT PREPARED.**

Half of small business leaders believe their

businesses are not a target for cybercriminals, according to a report by IT leader Switchfast. Many do not have policies to help stem cyberattacks such as breaches or the actions of negligent employees.

> **FUTURE INFLATION?** In its August 2018 report, the Bureau of Labor Statistics found that prices for U.S. imports rose 3.7% during the past year. There has not been a 12-month decline since October 2016. Could this August report on import prices be a harbinger of inflation to come?

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