ClientLine®

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TAX CREDITS OR DEDUCTIONS?

During this tax season, it can pay to understand the two types of tax breaks the IRS offers. The first includes tax deductions, which reduce your taxable income before determining your tax bill. The second is a tax credit, which reduces any taxes you owe. Both can help reduce your 2019 tax bill, whether you file as an individual, a business or both.

THE DIFFERENCE

The most valuable tax break is a credit, which reduces your taxes dollar for dollar. Let's say you qualify for $2,000 with the American Opportunity Credit, a credit for certain education costs, and you initially owe $4,000 in federal income tax. Subtract the credit from your taxes owed dollar for dollar and you'll halve your tax bill, saving $2,000.

On the other hand, you would subtract a $2,000 student loan interest deduction, which some taxpayers get for qualified education expenses, from your taxable income, not taxes owed. If your effective tax rate is about 20%, this deduction will cut your tax bill by $400.

You'll have to choose between taking deductions and taking the standard deduction. You generally can't take both. You can, however, take some tax credits along with the standard deduction. Your tax professional can ensure you get the most from any tax breaks available to you.

TYPES OF BREAKS

By working with a tax pro, individual taxpayers may learn if they qualify for tax credits, including earned income, child and dependent care, health coverage, adoption and others. Deductions might include capital losses and work-related education expenses. Contributions made to IRAs, Health Savings Accounts and 401(k) plans may also be deductible.

Businesses also have their fair share of credits and deductions. Energy-efficient manufacturing equipment, business-owned electric vehicles and certain types of research may net you tax credits.

Tax deductions could include capital improvements, everyday business expenses and interest paid on business loans.

Real Estate & QBI

The IRS issued a final ruling explaining how to qualify for a real estate income safe harbor to receive the Qualified Business Income (QBI) deduction. You will need to make this safe harbor determination annually.

Qualifications

To qualify for a safe harbor for a real estate rental income deduction under section 199A, taxpayers must meet all of the requirements stated in this final ruling. They include maintaining separate books for each enterprise and keeping contemporaneous records, including time report logs and similar documents. You'll also need to provide the description, hours and dates of all services performed and who performed them.

Hourly Rules

Rental real estate enterprises in existence for fewer than four years must have performed 250 or more hours of rental services per year. Those in business longer must meet this standard in three of the five previous years.

GET READY TO FILE YOUR TAXES

The beginning of another year means it's time to get ready for the annual task of filing your tax returns. Whether you file as an individual, a business or both, you can get a head start by working with a tax professional to find every tax break to which you're entitled.

GETTING READY

If you're working with a tax preparer for the first time, you'll need to bring certain documents with you. They will likely include past tax returns, income statements and investment documentation, to mention a few. In the latter category, you may need to bring multiple years of paperwork to show capital gains or losses, which your tax advisor will explain.

Whether you plan to use the standard deduction or itemize, you will want to round up proof of payment for a mortgage, higher education loans, unreminbursed medical bills and retirement contributions. Your tax professional may suggest other areas that could yield tax deductions, as well as documents you will need to support income and expenses cited in your tax return, if you're a business owner.

WHEN YOU MEET

By giving your tax preparer the best information you can, you increase the odds of getting the most from your tax return. When you meet, you may have to show federally recognized identification such as a driver's license, passport and social security number, as well as possibly incorporation papers and a federal tax ID number if filing a business return.

Expect your tax preparer to ask questions in an effort to find every deduction and credit to which you are entitled, but don't be afraid to ask any questions you may have. Ultimately, your tax return is as good as the information you provide, so doing the prep work up front can lower your tax bill.

Client PROFILE....

Ray recently received a letter from the IRS, saying that he underpaid his 2017 taxes by a few thousand dollars, which he wants to dispute. What are his next steps? Can his tax professional help him resolve this dispute with the IRS?

For starters, Ray shouldn't panic. Instead, he should consult a tax professional to discuss his situation. If Ray has the records at hand and agrees with the IRS assessment, he can simply pay the amount required in most cases.

If he disputes the assessment, he can mail a letter to the address on the contact stub at the bottom of the notice, explaining why he disputes it and include information and documents for the IRS to review when considering the dispute. The IRS will typically respond within 30 days.

Most cases can be resolved with these steps. If Ray wants to continue his dispute after receiving a letter back from the IRS or needs to appear before the IRS, he may choose to do so with an enrolled agent who is federally licensed to represent taxpayers during an IRS collection, audit or appeal.

Client Profile is based on a hypothetical situation.
The solutions we discuss may or may not be appropriate for you.

RESOLVE TO BECOME MORE COMPETITIVE

Business owners typically have little time for planning. However, making that time during this New Year — and new decade — can help most businesses become more competitive now and in the future.

PLAN YOUR SUCCESSION

Whether you plan to eventually sell your business to strangers or pass it down to the next generation, succession planning can help you get there. Consider working with a business valuation expert, who can give you tips about how to increase your company's value over time. Then put together a business succession plan. If your kids will take over, start preparing them now by gradually giving them more responsibility.

JOIN YOUR COMPETITION

How can you improve your standing among competitors? Borrowing from those who do certain things better can help. You might explore, for example, how to top competitor uses marketing and social media to highlight its business. Joining a professional or business organization can also yield helpful tips. Members typically enjoy sharing what works with fellow members.

GET HELP

If you want to squeeze more profit from your business, a tax professional might help. Or if you want to learn new ways to attract and retain top talent, a benefits consultant may help by showing you how a small increase in total compensation can increase productivity and loyalty.

RESOLVE TO BECOME MORE FINANCIALLY SECURE

Many people make resolutions to coincide with the advent of the New Year, including becoming more financially secure. If you want to improve your financial outlook, now is a good time to take steps to achieve this goal.

TAP THE EXPERTS

You go to a doctor for medical care and a mechanic to fix your vehicle. Why not work with a career consultant to learn how to advance in your career and earn more money? Or work with a personal trainer or nutrition expert to improve your health, which can ultimately lower your healthcare costs.

PREPARE FOR TOMORROW

Time flies — just ask any Baby Boomer who didn't save enough for retirement. A renewed effort to put more money away might help you save more quickly for a new home or a child's college costs, while markedly improving your retirement readiness.

SAVE MORE TODAY

Where will you find all that money for tomorrow? Learn to budget and stick to it. Skip an occasional lunch or expensive latte. Consider trimming your smartphone and cable television services for more savings.

Q&A

Q **I'm getting serious-sounding calls from someone who claims to represent the IRS, insisting my social security number is compromised. Should I trust this?**

A No, no and no! The IRS will typically send you a letter, and usually only after they receive a suspicious tax return filed with your social security number or after you file and they flag your return as a duplicate. The Federal Trade Commission recommends that you call the IRS using the telephone number given in the letter. You'll need the letter and a copy of your prior year's tax return when you call to help verify your identity. Get more information at www.identitytheft.gov.

Q **I contributed to a Simplified Employee Pension (SEP) as a self-employed individual for the first time this year and heard there is a special formula for deducting contributions on my tax return. What is it?**

A If you have a SEP-IRA, you can contribute up to 25% of compensation, up to $56,000 in tax year 2019. However, you'll need to make a special computation if you are self-employed. To find your maximum contribution you'll first need to deduct your contributions from income. Many SEP providers offer an online calculator to help you figure this out, and your tax professional can help you do the same.

ClientLine® SHORT BITS....

> LACKING CONFIDENCE

Few employers are "very confident" their employees are on the way to becoming retirement-secure, according to the report, "Employers: The Retirement Security Challenge," from the Transamerica Center for Retirement Studies. Only 17% of employers felt very confident, which lined up with 18% of employees who felt the same. About 23% of employers were not too confident and 6% said they weren't confident at all.

> RECESSION AHEAD?

Manufacturing activity was the lowest in a decade, according to the Institute for Supply Management, an association of purchasing managers. Its September manufacturing index fell to 47.8%, down from 49.1% in August. This was its lowest reading since June 2009. Any reading below 50 typically indicates that manufacturing activity is contracting.

> CONSUMERS NERVOUS?

The Bureau of Labor Statistics also recently compiled consumer economic information for all of 2018 and found that spending rose 1.9%. During the same period the Consumer Price Index (CPI-U) rose 2.4%. Two bright spots: healthcare expenses rose only 0.8% while education costs fell 5.6%.

> BENEFIT CONCERNS

If you wonder what challenges other employers face trying to put together their employee benefit packages, the 2019 Benefits Trends Survey by Willis Towers Watson offers some clues. Over the next three years, the employers surveyed cited rising benefit costs (82%), difficulty communicating benefit choices to employees (53%) and differing wants and needs of a multigenerational workforce (50%) as top concerns.