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Client Information.....January 2018

Organizers and Appointments. Organizers are available on the website as well as a tax document checklist and several other items which might be useful to you at: <http://johngallocpa.com/forms/>

If you received this newsletter in the mail, there should be an organizer enclosed along with it. Please use the organizers and checklists to help you assure that you have all the necessary information together to prepare your income tax returns.

Please call to schedule your appointment as soon as possible. We are available most days if necessary. We do schedule most appointments for early morning, the evenings, or on Saturdays to try to work with your schedules as well as the schedules of our business clients. Make sure you have all information available prior to your appointment. We do expect scheduling to be fairly tight this year. If you have the ability to provide your information electronically or through the mail ahead of time, this would improve the efficiency of getting your return completed. When mailing information, do not use certified or registered mail. This can cause extensive delays as we are not in close proximity to a post office. We like to opportunity to meet with you, but we all have busy schedules and we can work in any manner that is beneficial to you.

The best way contact me is via email. If you call, please leave a voice mail. We are very busy managing several different business activities, but I will get back to you as quickly as possible.

NEW TAX LAW. We have had the first very substantial change in tax laws in many years this year, but it is not effective for 2017. There will be many changes for 2018. For most people, these changes will mean a substantial decrease in the amount of taxes you pay. They could actually increase for some people, particularly those with very high itemized deductions or employee business expenses. While there is plenty of written information out there about the many features of the new tax law, here are just a few that are most likely to have a direct effect on some of you:

1. Increased Standard deduction and eliminated personal exemptions. Single filers will get a standard deduction of \$12,000; heads of household, \$18,000, and joint filers, \$24,000. This will reduce the number of people who need to itemize but may negatively impact families with a number of dependents.
2. Property taxes, sales taxes, state and local income taxes are capped at a maximum combined \$10,000 per year. This will effect mostly higher income taxpayers.
3. Elimination of many itemized deductions. The one which will effect the most taxpayers is the elimination of employee business expenses. Those of you who are W2 employees and take significant deductions for mileage, travel, or other employee business expenses will be significantly affected. You may want to renegotiate your compensation arrangements to deal with the loss of this deduction.

4. Many of you with pass through businesses such as S corporations and LLC's will be able to take a deduction of 20% of the income of those businesses. This could effectively reduce the tax paid by as much as 10% for higher income taxpayers. Personal service businesses (Accountants, Doctors, most services) are excluded from this deduction. There are some complicated rules about this deduction, particularly when income is higher.
5. Tax rates are simplified slightly and reduced slightly.
6. Child tax credits are increased up to as much as \$2,000 per qualifying child with some qualifications. This helps to mitigate the loss of the personal exemptions.
7. Student loan deductions remain maxed at \$2,500 but will phase out to zero as your income increases.
8. The floor for medical itemized deductions is reduced from 10% to 7% for 2018 only.
9. Penalties for failing to maintain health coverage under ACA is repealed beginning in 2019.
10. The "Production Deduction" is repealed. It no longer is available.

There are a number of other changes which may affect you, but the above are a selection of the items affecting the largest number of individual taxpayers.

Homework. It is not uncommon for clients to leave their tax appointment with "homework"-a list of information the tax preparer still needs in order to complete the return. Please provide this homework as soon as possible to avoid backlogs or delays in processing your returns. If homework is not furnished before March 15, you can expect that your return will be placed on extension. Note that you still must pay your taxes by April 15 even if you are on extension. Also, any clients who have not signed the electronic filing authorizations prior to April 10 will have their returns put on extension.

New Clients. We thank you for the many nice referrals that you have sent to us over the past years. We have increased the amount of time available for new clients over the next year. This has opened up more capacity for income tax clients. So please keep us in mind if any of your friends, relatives or colleagues express a need for professional tax assistance. Good referrals are always appreciated. We are also expanding our business advisory and process improvement services. We are available on a year round basis for income tax, estate planning, business planning, process improvements, and personal financial planning consulting.

Charitable contributions. Please be aware that the IRS is requiring that charitable contribution documentation be very detailed. If you give cash, you must have a receipt from the charity and that receipt must have "magic words" on it. Those words must be to the effect that you did not receive anything of value for your contribution (other than intangible benefits). Without those magic words, the deduction will be disallowed. Non-cash contributions must also have a receipt. The IRS is not accepting the receipts that are typically given by charitable organizations which pick up or accept delivery of goods. The receipt must be filled out in detail at the time of donation. The detail must include a listing of the items donated and the values assigned to those items.

Repair and Capitalization Policies. New regulations went into effect during 2014 which will affect everyone who operates a business or has rental property. For most clients we recommend making an election to expense all purchases under \$2,500.

Mileage. The standard mileage rate for business miles during 2017 was .535. For 2018 it increases to .545. Charitable mileage is .14 per mile and it is 17 cents per mile for medical or moving purposes. The business standard mileage rate must be documented at the time the miles are driven. You need to have some sort of mileage log to keep track of these miles or the deduction for them will be disallowed. In some cases, it may be better to use actual expenses rather than the standard mileage rate. Please discuss this with us. In any case, even if using actual expenses, you must still maintain

documentation of the business mileage. Note that I must have actual numbers and you must have documentation to support them. I cannot use "same as last year".

Entertainment and meals. Another area where documentation must be kept in very good detail. First of all, meals are not deductible if you are just having lunch even if you are away from home. Meals are only deductible in a few very limited circumstances. If you are entertaining a customer, the meal is deductible up to 50% of the cost IF you properly document (usually on the receipt) who you were entertaining and what business was discussed during the meal. Those details must be listed or the deduction will be disallowed. (tips are 100% deductible in this situation). You may deduct 100% of meals provided to employees to facilitate overtime work, or for infrequent company parties.

Please forward any correspondence received from the IRS or state tax agency immediately. It would be best if you can scan it and email it or mail me a copy. Pictures taken on phones often do not appear legible on computer screens or do not print well. I often need to forward those copies back to the tax authorities involved, so they need to be legible.