

BITS & PIECES OF TAX NEWS

AND OTHER ITEMS OF INTEREST

ADA TAX PROFESSIONALS 9140 Ustick Road Boise ID 83704 208-377-4303

January 2019

Why do I owe?

The IRS considers income tax collection a “pay as you go” system, so it mandates that employers withhold a certain amount from each paycheck and remit it to the IRS. When an employee’s total withholding for the year is greater than his or her tax liability, that taxpayer will be entitled to a refund of the excess amount paid. However, if the total withholding is less than the tax liability, the taxpayer will be required to pay the shortfall when filing his or her income tax return.

I thought we were getting a big tax cut this year, so what changed?

The Tax Cuts and Jobs Act, which is in effect for 2018, made many changes to income tax law, including reducing the tax rate for most. In anticipation of lower taxes, the IRS adjusted the formula used to calculate the amount withheld from each paycheck. While this allowed employees to take home more of their earnings, many may find that they have a smaller refund than expected or may even owe taxes.

The IRS mandated that employers change how they calculated withholding, but **IRS did not mandate that employees review and update their W-4** in consideration of the tax law changes. This mismatch of new withholding calculations and old W-4s has put many people in a bad situation. Did you change your W-4 last year? If your answer is “It’s the same as it has always been”, it is time to update your W-4.

What can I do to avoid owing taxes and/or increase next year’s refund?

Employees may alleviate this by providing their employers with an updated Form W-4, *Employee’s Withholding Allowance Certificate*. The W-4 worksheet will help determine the number of withholding allowances. However, in determining the number of withholding allowances, employees should keep in mind that the worksheet is designed to match withholding with the employee’s tax liability e.g. no additional taxes due and no refund. Therefore, employees may wish to claim fewer allowances than that calculated by the worksheet.

So what about Idaho withholding?

The State of Idaho conformed to federal tax law in many ways. It also changed the state tax code in other ways, resulting in some differences between the number of federal allowances and Idaho allowances. Taxpayers should obtain the *2019 W-4 Worksheet for Idaho* from tax.idaho.gov/pubs which shows how to claim different federal and state allowances.

Still have questions?? We can help with W-4’s.



In Loving Memory of Kara Dimmick

Kara passed away July 16, 2018 from injuries sustained in an accident. We want to thank everyone that called and sent cards. We miss her bright spark and passion that she shared with everyone.



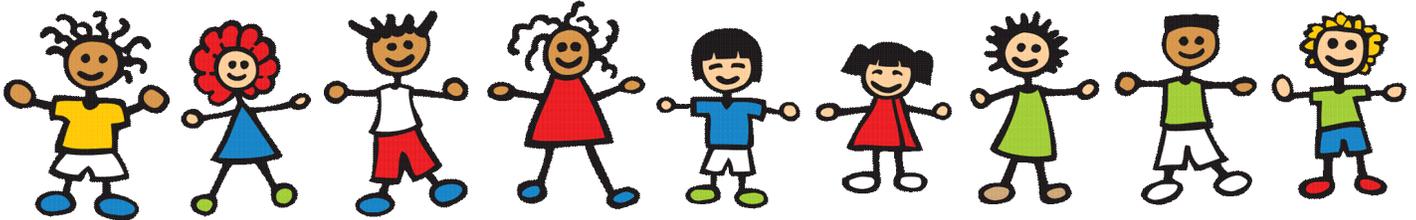
Family Tax Credits

The Tax Cuts and Jobs Act (TCJA) made several changes to the Child Tax Credit and added a new credit for other dependents.

The Child Tax Credit has increased from \$1,000 to \$2,000 per qualifying child. To qualify, the child must be claimed as a dependent, have a valid social security number and have not reached age 17 by end of the tax year. Additionally, the child must have lived with the taxpayer for at least half the year unless the taxpayer is divorced and the custodial parent released their rights to it. Up to \$1,400 of the credit can be refundable for each child. Taxpayers can receive this refundable portion even no tax is owed.

In addition, higher income limits mean more families are eligible to receive the Child Tax Credit. The credit begins to phase out at \$200,000 modified adjusted gross income for single taxpayers and \$400,000 for married couples filing jointly. This is up from \$75,000 and \$110,000 respectively.

Along with increasing the Child Tax Credit, the TCJA added a new credit—Credit for Other Dependents. This credit is available for dependents for whom taxpayers cannot claim the Child Tax Credit. This may include children who are age 17 or older at the end of the tax year, parents, or other qualifying relatives supported by the taxpayer.



Business or Hobby?

The distinction between a business activity and hobby activity can be a bit blurry. However, it is important to make the distinction because of the tax treatment given them. Both activities require the earnings be included in taxable income. However, **hobby** expenses are considered personal expenses that are not deductible under the new tax law. On the other hand, ordinary and necessary **business** expenses may be deducted from income. If this results in a loss it can be used to offset other income.

Basically, a business activity is one that is intended to make a profit. Indeed, an activity that has in fact earned a profit in three of the last five years periods (including the current year) is presumed to be carried out for profit. Similarly, activities involving the breeding, training, showing, or racing horses where there has been a profit in two of the past seven years (including the current year) are presumed to be carried out for profit.

Even if the five or seven year test cannot be met, an entity still may qualify as a business based on other factors including:

- You carry on the activity in a business-like manner;
- The time and effort put into the activity indicates and intent to make a profit;
- You depend on activity income for your livelihood;
- Your losses are beyond your control or are normal for the start-up phase of your business;
- You change your methods of operation in an effort to be profitable;
- You (or your advisors) have sufficient knowledge to carry on the activity as a successful business;
- You have been successful in making a profit from similar activities in the past.
- The activity makes a profit in some years; and
- You can expect to make a profit from the appreciation of assets used in the activity.



THE BULLETIN BOARD

Check out our updated website!

www.adataxpros.com

You can download the Business Expenses Worksheet Rental Expenses Worksheet and the Questionnaire

No Health Insurance in 2018?

The new tax law did repeal the penalty for not having insurance, but not until 2019. If you did not have health insurance for 2018 or past years, you may qualify for an exemption.

Potential Exemptions

- Death of a family member
- Received shut off notice from utility co
- Unable to pay large medical expenses
- Taking care of ill or aging family member
- Faced eviction or became homeless
- Experienced domestic violence, Bankruptcy, Fire, Flood or Disaster

Exemptions can be retroactive to past years.

A recycling reminder for most recycling programs

Plastic items that should be thrown in the trash:

All plastic water bottles that are “filmy plastics”

All clamshell containers for to-go food, fruit and vegetables

All wax-coated containers, such as; to-go cups, frozen dinner trays, dairy containers, juice cartons



Mileage Rates

New Standard Mileage Rates for the New Year!

Mileage Rates for 2019

Business	.58
Medical/Moving	.20
Charitable	.14

Mileage Rates for 2018

Business	.54½
Medical/Moving	.18
Charitable	.14

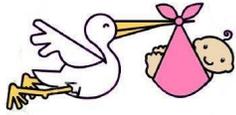
Phase 2 of Elke's Transition into Retirement

In last year's newsletter we announced that Elke is transitioning into retirement. This tax season will see her dedicating fewer hours to Ada Tax Professionals, which means she will be unable to see all her clients.

We encourage you to call early for an appointment and/or take the opportunity to develop a new relationship with Darci or Jim. Both have many years of experience as Enrolled Agents. Elke will continue to be available to them in order to provide background and history as needed.

Adoption Deduction Increased in 2018

The deduction limit for Adoption Expenses on Idaho returns has been increased from \$3,000 to \$10,000 per adoption. Qualifying expenses include legal fees and medical costs. The deduction is available for all successful adoptions, even adopting a spouse's child. The deduction is taken in the year the expenses are paid and can span multiple years.



For example, John and Sue are adopting a child. They paid \$3,300 in attorney fees in 2017 and \$9,500 in 2018. The adoption was final in 2018. They can deduct \$3,000 on their 2017 Idaho return (the limit in 2017 was 3,000) and \$7,000 on their 2018 return (limited to \$10,000 per adoption).

New K-1 Reporting Requirements

Beginning with 2018 returns, the IRS is requiring basis worksheets in many cases for taxpayers receiving K-1's. Tracking basis has always been required of taxpayers, but now the IRS is requiring proof. This appears to be an effort to stop the practice of declaring losses year after year even after the entire investment has been recouped or written off.

Here at Ada Tax Professionals, we are able to track Partnership and S Corp basis for you. Just be aware this could cause us additional time and effort to complete these new worksheets.

SPOTLIGHT ON *Jim Henderson*

We would like to welcome the newest member of our team, Jim Henderson. He is an Enrolled Agent and has been doing taxes for over 10 years. He really enjoys the small firm focus of Ada Tax Professionals and looks forward to meeting many of you. Jim will be working with most of Kara's clients this year.

Jim grew up in Jerome, Idaho and Nyssa, Oregon, and graduated from Kuna High School. He joined the Army shortly after High School where he served for 21 years. He was stationed at Fort Ord California (twice), the Presidio of San Francisco, Vietnam, Fort Eustis Virginia, and he served three tours in Germany. While serving our country, Jim received his Associate's Degree from University of Maryland and his Bachelor's Degree from St Leo University in Florida. After leaving the military, he earned his Master's Degree in Business Administration from Boise State University.

He met and married his wife later in life and became an instant father of four grown children and grandfather of three. Since then, he has welcomed four more grandchildren and two great-granddaughters. He thoroughly enjoys his grandchildren and great-grandchildren and spoils them every chance he gets.

Jim has a wide range of hobbies including quilting and machine embroidery, developing websites, and shooting his pistol at the gun range. He also enjoys reading John Grisham and James Patterson novels. His motto, which was passed down from his great-grandfather, is "He who knows most, knows best how little he knows."



Disclaimer Material presented in this newsletter is intended for information purposes only. It is not intended as professional advice and should not be construed as such. The U.S. Treasury Department requires us to inform you that any information obtained from this newsletter is not intended or written to be used, and cannot be used by any taxpayer, for the purpose of avoiding any penalties that may be imposed under the Internal Revenue Code. Advice from Ada Tax Professionals relating to Federal tax matters, may not be used in promoting, marketing or recommending any entity, investment plan or arrangement to any taxpayer.