

BUSINESS YEAR END NEWSLETTER

LUONGO & ASSOCIATES, PC

(301) 952-9437

www.luongocpa.com

As I'm sure you're aware, the Tax Cuts and Jobs Act of 2017 (TCJA) was enacted at the end of last year. It's the largest tax overhaul since the 1986 tax Reform Act and will affect almost every business in the United States. In light of all the changes that took effect this year, we will have a minimum 20% fee increase over your prior year fee.

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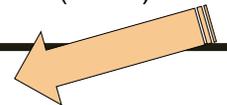
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DO YOU USE QUICKBOOKS FOR YOUR PAYROLL?

BE SURE TO CHANGE YOUR SUTA RATE AS EARLY AS POSSIBLE IN JANUARY 2019.



2019 AUTOMOTIVE MILEAGE RATE

- Standard Mileage Rate is 54.5 cents.
- Medical Care Mileage Rate is 18 cents.
- Moving Mileage Rate is 18 cents.
- Charitable Use Rate is 14 cents.

RETIREMENT PLAN CONTRIBUTION

Changes for 2019 can be found on our website under the "Payroll" section. At the bottom of the screen, go to "Updated Payroll News and Additional Information". Then click on "Retirement Plan Contribution Limits"

NEW HIRE REPORTING (no change)

Reminder: You as the employer have a requirement to report all new employees to the new hire registry within 20 days of hire.

You can register online to report employee's at:

<http://newhire-reporting.com/MD-Newhire/Default.aspx>

Or, you can print the forms from our website by going to the "Payroll" section then choosing "Common Forms"

The printed form can be filled out and faxed or mailed in. The fax number or address can be found on the form.

NEW EMPLOYEE FORMS

As the employer, you are required to either complete or have your new employee complete the following forms. These forms should be kept on file for all employees and updated on a yearly basis.

- Federal W4's
- State Withholding Forms
- I-9 Employment Eligibility Forms
(you must use the new form updated in 2017)
- State New Hire Registry Form
- Health Coverage Employer Option Form

SIMPLE CONTRIBUTION DUE DATES

When must contributions be deposited?

- A.) Employee salary reduction contributions - within 30 days after the end of the month in which the amounts would otherwise have been payable to the employee in cash (including self-employed individuals).
- B.) Employer matching or non-elective contributions – by the due date (including extensions) for filing your federal income tax return for the year.

MARYLAND LOCAL RATE CHANGE

Only 1 county has changed their 2019 rate:

Caroline County is now 3.00%

Please be sure to make this change.

Withholding tables can be downloaded from
www.marylandtaxes.gov

2019 SOCIAL SECURITY WAGE BASE

The Social Security Administration has announced that the wage base limit changed from \$128,400 in 2018 to \$132,900 in 2019.

There is NO wage base limit for computing Medicare tax, however, there is an increase from 1.45% to 2.35% for wages over \$200,000

MINIMUM WAGE

MARYLAND – Current minimum wage is \$10.10. However, if your place of business is in Prince George's County, the rate is \$11.50 and in Montgomery County, the rate is \$12.00 if you have 50 or less employees and \$12.25 if you have 51 or more employees.

VIRGINIA – Current minimum wage is \$7.25 (same as Federal minimum wage)

DISTRICT OF COLUMBIA – Current minimum wage is \$13.25 but will increase to \$14.00 on July 1, 2019.

VISIT OUR WEBSITE – FOR YOUR CONVENIENCE

www.luongocpa.com

Home Page

Link to “Your Documents”

Link to “Where’s my federal refund?”

Link to “Where’s my MD refund?”

Link to IRS Forms Online

Go to “Payroll Forms” - “Additional Info”

Minimum Wage Law

2018 Retirement Plan Contribution Limit

Authorization to electronically file W-2s

Manual Paycard

Employee vs Independent Contractor

EFPTS Set Up with Worksheets

Salary vs. Hourly Employee

The CURE Act

Go to “Payroll Forms” - “Common Forms”

W-4 - Federal Employee Withholding Allowance

I-9 - DOJ Employment Eligibility Verification

MD507 - MD Withholding Exemption

VA-4 - VA Withholding Exemption

DC-4 - DC Withholding Exemption

MD, DC & VA New Hire Reporting Form

Health Insurance – Offered form

Health Insurance – Not Offered form

Other Forms

W-9 - Request for Taxpayer ID Number

MW506A – MD AMENDED WH COUPON

MW506FR – MD SALES TAX FINAL RETURN FORM

Maryland Corporation EFT Application

TAX CUTS AND JOBS ACT (H.R. 1)

TAX CHANGES FOR BUSINESSES PERMANENT AS OF 1/1/18

HOT
TOPIC

	Prior Law (2017)	H.R. 1 (2018)
Corporate rate	35% maximum rate	21% flat rate
Pass-through income	Same as individual rates	20% reduction



New Business-Related Tax Rules for 2018

The business-related provisions in the TCJA are permanent and generally take effect beginning with 2018 tax years. For businesses, highlights of the new law include: (1) an increase in amounts that may be expensed under Section 179 and an increase in the bonus depreciation deduction; (2) a 21 percent flat corporate tax rate; (3) a new business deduction for sole proprietorships and pass-through entities; (4) the elimination of the corporate alternative minimum tax (AMT); (5) modifications of rules relating to accounting methods; and (6) several changes involving partnerships and S corporations. As a result of these changes, many businesses are rethinking their entity choice. Whether this would be appropriate in your situation depends on several factors which we should evaluate together. The following is a brief overview of some of the more significant aspects of the new tax law that may affect your business.

New Deduction for Qualified Business Income

One of the biggest changes for 2018 is the new qualified business income deduction. If you are **a sole proprietor, a partner in a partnership, a member in an LLC taxed as a partnership, or a shareholder in an S corporation**, you may be entitled to a deduction for qualified business income for tax years beginning after December 31, 2017, and before January 1, 2026. Trusts and estates are also eligible for this deduction.

While there are important restrictions to taking this deduction, the amount of the deduction is generally 20 percent of qualifying business income from a qualified trade or business. A qualified trade or business means any trade or business other than (1) a specified service trade or business, or (2) the trade or business of being an employee. A "specified service trade or business" is defined as any trade or business involving the performance of services in the fields of health, law, accounting, actuarial science, performing arts, consulting, athletics, financial services, brokerage services, including investing and investment management, trading, or dealing in securities, partnership interests, or commodities, and any trade or business where the principal asset of such trade or business is the reputation or skill of one or more of its employees. Engineering and architecture services are specifically excluded from the definition of a specified service trade or business.

However, there is a special rule which allows you to take this deduction even if you have a specified service trade or business. Under that rule, the provision disqualifying such businesses from being considered a qualified trade or business for purposes of the qualified business income deduction does not apply to individuals with taxable income **of less than \$157,500 (\$315,000 for joint filers)**. After an individual reaches the threshold amount, the restriction is phased in over a range of \$50,000 in taxable income (\$100,000 for joint filers). Thus, if your income falls within the range, you are allowed a partial deduction. Once the end of the range is reached, the deduction is completely disallowed.

For purposes of the deduction, items are treated as qualified items of income, gain, deduction, and loss only to the extent they are effectively connected with the conduct of a trade or business within the United States. In calculating the deduction, qualified business income means the net amount of qualified items of income, gain, deduction, and loss with respect to the qualified trade or business of the taxpayer.

Qualified business income does not include any amount paid by an S corporation that is treated as reasonable compensation of the taxpayer, or any guaranteed payment (or other payment) to a partner in a partnership for services rendered with respect to the trade or business. Qualified items do not include specified investment-related income, deductions, or losses, such as capital gains and losses, dividends and dividend equivalents, interest income other than that which is properly allocable to a trade or business, and similar items.

If the net amount of qualified business income from all qualified trades or businesses during the tax year is a loss, it is carried forward as a loss from a qualified trade or business to the next tax year (and reduces the qualified business income for that year).

Elimination of Entertainment Deduction

The new tax law also eliminated business deductions for entertainment. As a result, no deduction is allowed with respect to: (1) an activity generally considered to be entertainment, amusement or recreation; (2) membership dues with respect to any club organized for business, pleasure, recreation or other social purposes; or (3) a facility or portion thereof used in connection with any of the above items. Under prior law, there was an exception to this rule for entertainment, amusement, or recreation directly related to (or, in certain cases, associated with) the active conduct of a trade or business. This is no longer the case.

In addition, no deduction is allowed for expenses associated with providing any qualified transportation fringe benefits to your employees, except as necessary for ensuring the safety of an employee, including any expense incurred for providing transportation (or any payment or reimbursement) for commuting between the employee's residence and place of employment.

A business may still generally deduct 50 percent of the food and beverage expenses associated with operating their trade or business (e.g., meals consumed by employees during work travel). If meals are combined with entertainment, the meal portion needs to be separately stated in order for the business to deduct the meal expense.

Section 179 Deduction

For 2018, businesses can write off up to \$1,000,000 of qualifying property under Section 179. The theory is that the money a business saves on taxes, as a result of deducting the full amount of equipment and other business property, can be reinvested back into the business. Additionally, writing off an asset in the year it is purchased, saves you the time and money it takes to keep track of the remaining basis of an asset after its yearly depreciation. The \$1,000,000 amount is reduced (but not below zero) by the amount by which the cost of the qualifying property placed in service during the tax year exceeds \$2,500,000.

In addition, the definition of property that qualifies for the Section 179 deduction has been expanded to include certain depreciable tangible personal property used predominantly to furnish lodging or in connection with furnishing lodging, as well as any of the following improvements to nonresidential real property: roofs; heating, ventilation, and air-conditioning property; fire protection and alarm systems; and security systems.

Bonus Depreciation Deduction

The new tax law extended and modified the additional first-year (i.e., "bonus") depreciation deduction, which had generally been scheduled to end in 2019. An enhanced bonus depreciation deduction is now available, generally, through 2026. Under the new rules, the 50-percent additional depreciation allowance that was previously allowed is increased to 100 percent for property placed in service after September 27, 2017, and before January 1, 2023, as well as for specified plants planted or grafted after September 27, 2017, and before January 1, 2023. These deadlines are extended for certain longer production period property and certain aircraft.

The 100-percent allowance is phased down by 20 percent per calendar year in tax years beginning after 2022 (after 2023 for longer production period property and certain aircraft).

Another new provision removes the requirement that, in order to qualify for bonus depreciation, the original use of qualified property must begin with the taxpayer. Thus, the bonus depreciation deduction applies to purchases of used as well as new items.

TCJA also expands the definition of qualified property eligible for bonus depreciation to include qualified film, television and live theatrical productions, effective for productions placed in service before January 1, 2023.

Additional Depreciation 'Luxury' Automobiles & Certain Personal Use Property

Another benefit of the new tax law is that it increases the depreciation limitations that apply to certain "listed" property such as vehicles with a gross unloaded weight of 6,000 lbs or less (known as "luxury" automobiles). For luxury automobiles placed in service after 2017, an additional \$8,000 deduction is available, thus making the write-off for the first year \$18,000. The deduction is \$16,000 for the second year, \$9,600 for the third year, and \$5,760 for the fourth and later years in the recovery period. In addition, computer or peripheral equipment has been removed from the definition of listed property, which means that such property is not subject to the heightened substantiation requirements that previously applied.

New Interest Deduction Limitations

for 2018, the deduction for business interest is limited to the sum of business interest income plus 30 percent of adjusted taxable income for the tax year. However, there is an exception to this limitation for certain small taxpayers, certain real estate businesses that make an election to be exempt from this rule, businesses with floor plan financing (i.e., a specialized type of financing used by car dealerships), and for certain regulated utilities.

The new law exempts from the interest expense limitation taxpayers with average annual gross receipts for the three-taxable year period ending with the prior taxable year that do not exceed \$25 million. Further, at the taxpayer's election, any real property development, redevelopment, construction, reconstruction, acquisition, conversion, rental, operation, management, leasing, or brokerage trade or business is not treated as a trade or business for purposes of the limitation, and therefore the limitation does not apply to such trades or businesses.

S Corporation Shareholder Salaries

For any business operating as an S corporation, it's important to ensure that shareholders involved in running the business are paid an amount that is commensurate with their workload. The IRS scrutinizes S corporations which distribute profits instead of paying compensation subject to employment taxes. Failing to pay arm's length salaries can lead not only to tax deficiencies, but penalties and interest on those deficiencies as well. The key to establishing reasonable compensation is being able to show that the compensation paid for the type of work an owner-employee does for the S corporation is similar to what other corporations would pay for similar work. If you are in this situation, we need to document the factors that support the salary you are being paid.

Carryover of Business Losses Is Now Limited

Beginning in 2018, excess business losses of a taxpayer other than a corporation are not allowed for the tax year. Under this excess business loss limitation, your loss from a non-passive trade or business is limited to \$500,000 (married filing jointly) or \$250,000 (all other taxpayers). Thus, such losses cannot be used to offset other income. Instead, if your business incurs such excess losses, you must carry them forward and treat them as part of your net operating loss carryforward in subsequent tax years.

Employer Credit for Paid Family and Medical Leave

For 2018 and 2019, eligible employers can claim a general business credit equal to 12.5 percent of the amount of wages paid to qualifying employees during any period in which such employees are on family and medical leave if the rate of payment under the program is 50 percent of the wages normally paid to an employee. The credit is increased by 0.25 percentage points (but not above 25 percent) for each percentage point by which the rate of payment exceeds 50 percent.

Given the cost of implementing such a policy and complying with reporting requirements, the credit may be impractical for many employers to pursue during the short period it's available. For businesses that already have a qualifying family and medical leave plan in place, however, the credit may provide a nice windfall.

Retirement Plans and Other Fringe Benefits

Benefits are very attractive to employees. If you haven't done so already, you may want to consider using benefits rather than higher wages to attract employees. While your business is not required to have a retirement plan, there are many advantages to having one. By starting a retirement savings plan, you not only help your employees save for the future, you can also use such a plan to attract and retain qualified employees. Retaining employees longer can impact your bottom line as well by reducing training costs. In addition, as a business owner, you can take advantage of the plan yourself, and so can your spouse. If your spouse is not currently on the payroll, you may want to consider adding him or her and paying a salary up to the maximum amount that can be deferred into a retirement plan. So, for example, if your spouse is 50 years old or over and receives a salary of \$24,500, all of it could go into a 401(k), leaving your spouse with a retirement account but no taxable income.

By offering a retirement plan, you also generate tax savings to your business because employer contributions are deductible and the assets in the retirement plan grow tax free. Additionally, a tax credit is available to certain small employers for the costs of starting a retirement plan. Please let me know if this is an option you would like to discuss further.



DO WE HAVE YOUR EMAIL ADDRESS?

Have you verified your email address with us?

If not, please email us today at luongo.associates@luongocpa.com to verify your address with us. We DO NOT send out mass mailings so you don't have to worry about receiving junk mail from us.

Do you ever need a document quick and don't want to dig through your records? You can access your business financials, plus both business and personal tax returns on our website. Many are currently taking advantage of this convenience. If you haven't already been set up please send an email to luongo.associates@luongocpa.com and request access.

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Here you will find the following:

Tax Changes for Individuals

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