

## Tax Cuts and Jobs Act

The tax items affected by TCJA for tax year 2018 of greatest interest to most taxpayers include the following dollar amounts:

- **The standard deduction for married filing jointly rises to \$24,000.** For single taxpayers and married individuals filing separately, the standard deduction rises to \$12,000; for heads of households, \$18,000.
- **The TCJA reduced the personal exemption.** The personal exemption for tax year 2018 is \$0.
- **TCJA reduced tax rates for many taxpayers. The new tax rates are: 10 percent, 12 percent, 22 percent, 24 percent, 32 percent, 35 percent and a top rate of 37 percent.** For tax year 2018, the highest tax rate will apply to married individuals filing jointly and surviving spouses with taxable incomes over \$600,000, to single taxpayers and heads of households with incomes over \$500,000, and to married taxpayers filing separately with incomes over \$300,000.
- **The TCJA eliminates the limitation for itemized deductions.**

## Section 199A Defining Terms

Allows a 20% deduction against qualified business income after deduction business expenses.

Pass-thru entities and structures include-

- Sole proprietorships (no entity, Schedule C).
- Real estate investors (no entity, Schedule E).
- Disregarded entities (single member LLCs).
- Multi-member LLCs.
- Any entity taxed as an S corporation.
- Trusts and estates, REITs and qualified cooperatives.

Specified Service Trade or Business is defined as-

- Traditional service professions such as doctors, attorneys, accountants, actuaries and consultants.
- Performing artists who perform on stage or in a studio.
- Paid athletes.
- Anyone who works in the financial services or brokerage industry.
- And now the hammer... "any trade or business where the principal asset is the reputation or skill" of the owner.

## Small Business Tax Deductions

- Accounting fees
- Advertising & marketing
- Amortization
- Bad debts that you cannot collect
- Banking fees
- Board meetings
- Building repairs and maintenance
- Business association membership dues
- Business travel (here's what you need to know!)
- Cafeteria health-insurance plan (requires plan)
- Car expenses
- Charitable deductions made for a business purpose
- Charity or traveling to perform charitable services
- Cleaning/janitorial services
- Collection expenses
- Commissions to outside parties
- Computers and tech supplies
- Consulting fees
- Continuing education for yourself to maintain licensing and improve skills
- Contractors
- Conventions and trade shows
- Credit card convenience fees
- Depreciation
- Discounts to customers
- Eating out while you're traveling for business
- Education and training for your employees
- Employee wages
- Employee benefits
- Entertainment for customers and clients
- Equipment
- Equipment repairs
- Exhibits for publicity
- Family members' wages
- Franchise fees
- Freelancers
- Freight or shipping costs
- Furniture or fixtures
- Gifts for customers or employees (\$25 deduction limit for each)
- Group insurance (if qualifying)
- Guard dog
- Gym for employees, located onsite

- Health insurance
- Home office (see our handy article)
- Insurance premiums for credit, liability, malpractice, worker's comp, and other insurance
- Interest
- Internet hosting and services
- Inventory
- Investment advice and fees
- Legal fees
- License fees
- Management fees
- Materials
- Maintenance
- Medical expenses (with plan)
- Mortgage interest on business property
- Moving
- Newspapers and magazines
- Office supplies and expenses
- Outside services
- Payroll processing
- Payroll taxes for employees, including Social Security, Medicare taxes and unemployment taxes
- Parking and tolls
- Penalties and fines paid for late performance or nonperformance of contracts
- Pension plans
- Permits and fees
- Postage
- Profit sharing
- Publicity
- Prizes for contests
- Real estate-related expenses
- Rebates on sales
- Rent
- Research and development (we literally wrote the guide on this one!)
- Retirement plans
- Royalties
- Safe-deposit box
- Safe
- Service fees
- Software and online services
- Startup expenses
- Stereo equipment for playing background music at work
- Storage rental
- Subcontractors

- Taxes (amazingly, taxes incurred in running your business are deductible)
- Telephone
- Theft and loss
- Tips. Just because you didn't get a receipt doesn't mean you can't deduct the cost, but you should document it just the same.
- Uniforms for your employees
- Utilities
- Waste removal
- Website design
- Workers' compensation insurance

#### 11 Deductions to Avoid All Together

- A small business loan—but you can deduct whatever you purchase with the loan
- Business attire that you can wear outside of work (ie, non-uniforms)
- Contributing your time to charity
- Membership dues, even to a professional organization
- Federal income tax payments
- Your life and disability insurance premiums if you're a sole prop., partnership, or S Corporation
- Lobbyists
- Penalties and fines you pay as the result of breaking the law
- Political contributions
- Professional accreditation fees
- Your own salary if you're a sole proprietor

## Sales Tax

Current **sales tax** rate (effective January 1, 2016) in **Colorado** Springs, CO is 8.25%, broken out as follows: 3.12% City of **Colorado** Springs. 2.9% State of **Colorado**. 1.23% El Paso County.

Filing frequency is determined by the amount of sales tax collected monthly.

- **\$15 or less per month:** Sales tax returns may be filed *annually*. Annual returns are due January 20.
- **Under \$300 per month:** Sales tax returns may be filed *quarterly*.  
Due dates are:  
January - March: due April 20  
April - June: due July 20  
July - September: due October 20  
October - December: due January 20
- **\$300 or more per month:** sales tax returns must be filed monthly. Monthly returns are due the 20th day of month following reporting period.
- **Businesses that pay more than \$75,000 per year in state sales tax must pay by Electronic Funds Transfer (EFT).** EFT is due the 20th day of month following reporting period.
- Wholesale businesses with a sales tax liability of \$180 per year or less can file annually.

If the 20th day falls on a weekend or holiday, the due date is the next business day. If there are no taxable sales during a filing period, a zero (0) return must be filed. **Failure to file a required return will result in a nonfiler notice that is mailed approximately one month after the due date of the return, which is followed a month later by an estimated bill. The collection process will continue on this bill until the return is filed or the account is closed.**



## Business Changes in the Tax Cuts and Jobs Act

The below is a synopsis of key tax law changes that impact businesses for tax years beginning 2018 through 2025, unless specific effective dates are noted. More details of these key tax changes are available on our website, [www.skrco.com](http://www.skrco.com). To learn how tax reform impacts your tax situation, please contact your tax advisor.

Income		
<b>Reduced</b>	<b>Corporate income tax rate</b>	For tax years that begin after Dec. 31, 2017, the corporate tax rate is reduced to a flat 21% rate.
<b>Limit change</b>	<b>Like-kind exchanges</b>	Generally effective for transfers after Dec. 31, 2017, Code Sec. 1031 like-kind exchanges are limited to transfers of real property not held primarily for sale
<b>Expanded</b> <i>Construction Industry Specific</i>	<b>Long-term contract rules</b>	Under current law, <b>construction companies</b> with average annual gross receipts \$10 million or less, that meet certain other requirements, may use the more favorable completed contract method for recognizing income, rather than the less favorable percentage-of-completion method. For contracts entered into after Dec. 31, 2017, that \$10 million figure is increased to \$25 million.
Exemptions		
<b>Repealed</b>	<b>Corporate Alternative Minimum Tax exemption</b>	For tax years that begin after Dec. 31, 2017, the corporate alternative minimum tax (AMT) is repealed.
Deductions		
<b>Added</b>	<b>20% on Pass-through income</b>	For tax years that begin after Dec. 31, 2017, pass-through businesses, e.g., sole proprietorships, partnerships, limited liability companies and S corporations, may be able to take a deduction of up to 20% of their business income. But this new provision is complicated. For example, "specified service trades or businesses," e.g., businesses that involve performance of services in the fields of health, law, consulting, athletics, financial services and brokerage services, don't fully qualify unless the taxpayer's taxable income is equal to or below \$157,500 (\$315,000 for married individuals filing jointly) and don't qualify at all if the taxpayer's taxable income is above \$207,500 (\$415,000 for married individuals filing jointly). Taxpayers in specified service businesses whose taxable income is too high to qualify for the new deduction should consider incorporating and/or changing/expanding their business model so that they are not specified service trades or businesses. There is existing guidance on what is and what isn't a specified service trade or business.
<b>Disallowed</b>	<b>Entertainment expenses deductions</b>	Amounts incurred or paid after Dec. 31, 2017 for entertainment will not be deductible, except for certain meals which may be 50% deductible.

<b>Disallowed</b>	<b>Employer deduction for employee transportation fringe benefits</b>	Amounts incurred or paid after Dec. 31, 2017 for employee transportation fringe benefits, e.g., parking and mass transit, will not be deductible.
<b>Limit change</b>	<b>Excessive employee compensation</b>	A deduction for compensation paid or accrued with respect to a covered employee of a publicly traded corporation is limited to no more than \$1 million per year. However, under pre-Act law, exceptions applied for: (1) commissions; (2) performance-based remuneration, including stock options; (3) payments to a tax-qualified retirement plan; and (4) amounts that are excludable from the executive's gross income. For tax years beginning after Dec. 31, 2017, the exceptions to the \$1 million deduction limitation for commissions and performance-based compensation are repealed.
<b>Modified</b>	<b>Net Operating Loss deductions</b>	For net operating losses (NOLs) arising in tax years ending after Dec. 31, 2017, the current-law two-year carryback is, in almost all cases, repealed. For losses arising in tax years that begin after Dec. 31, 2017, the NOL deduction is limited to 80% of taxable income.
<b>Repealed</b>	<b>Domestic Production Activities Deduction (DPAD)</b>	For tax years that begin after Dec. 31, 2017, the domestic production activities deduction (DPAD) is repealed. DPAD is a deduction equal to 9% (6% in the case of certain oil and gas activities) of the lesser of the taxpayer's qualified production activities income or the taxpayer's taxable income for the tax year.
<b>Limit Change</b>	<b>Business Interest deduction</b>	For tax years that begin after Dec. 31, 2017, every business, regardless of its form, is generally subject to a disallowance of a deduction for net interest expense in excess of 30% of the business's adjusted taxable income. The amount of any business interest not allowed as a deduction for any taxable year is treated as business interest paid or recruited in the succeeding tax year. This new rule does not apply to businesses with average annual gross receipts that do not exceed \$25 million. Other exceptions may also apply.
<b>Depreciation</b>		
<b>Expanded</b> <i>Specific effective dates apply.</i>	<b>Expensing and depreciation</b>	Taxpayers will be able to take advantage of the 100% bonus depreciation provision included in the Act for property placed in service after Sept. 27, 2017. Also note that, under the Act, used property qualifies for bonus depreciation. Additionally, limitations on automobile depreciation are greatly increased for automobiles placed in service after Dec. 31, 2017
<b>Credits</b>		
<b>Added</b>	<b>Credit for wages paid under FMLA</b>	An eligible employer is allowed a credit for wages paid to a qualifying employee while on leave under the Family Medical Leave Act.





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## Individual Changes in the Tax Cuts and Jobs Act

The below is a summary of key tax law changes that impact individuals for tax years beginning 2018 through 2025, unless specific effective dates are noted. More details of these key tax changes are available on our website, [www.skrco.com](http://www.skrco.com). To learn how tax reform impacts your tax situation, please contact your tax advisor.

Income		
<b>Reduced</b>	<b>"Ordinary" income</b>	A new tax rate structure with seven tax brackets: 10%, 12%, 22%, 24%, 32%, 35%, and 37%. The top rate was reduced from 39.6% to 37% and applies to taxable income above \$500,000 for single taxpayers and \$600,000 for married couples filing jointly.
<b>Unchanged</b>	<b>Capital gains</b>	The rates applicable to net capital gains were not changed.
<b>Unchanged</b>	<b>Qualified dividends</b>	The rates applicable to qualified dividends were not changed.
<b>Simplified</b>	<b>"Kiddie" tax rules</b>	The tax rules on a child's unearned income, also known as the "kiddie tax," were simplified. The net unearned income of a child subject to the rules will be taxed at the capital gain and ordinary income tax rates that apply to trusts and estates. Thus, the child's tax is unaffected by the parent's tax situation or the unearned income of any siblings. However, since the income ranges in trust tax rates are more compressed than individual rates, this change is an effective tax increase on kiddie income.
<b>Eliminated</b>	<b>Alimony</b>	For divorce decrees and separation agreements executed beginning 2019, alimony will not be taxable to the recipient and will no longer be deductible by the payee.  <b>Current rules continue to apply to existing divorces and separations, as well as divorces and separations that are executed before 2019.</b>  Side note: Child support payments continue to be nontaxable and nondeductible.
<i>Specific effective dates apply.</i>		
Exemptions		
<b>Eliminated</b> Anticipated release of new W4 Forms in February	<b>Personal exemptions</b>	The rules for withholding income tax on wages (i.e., what you claim on Form W4), will be adjusted to reflect the elimination of personal exemptions. The IRS is developing withholding guidance to implement the tax reform bill and anticipates issuing the initial withholding guidance in January 2018, and employers and payroll

2018.		service providers will be encouraged to implement the changes in February 2018. The IRS emphasizes that this information will be designed to work with the existing W-4 Forms that employees have already filed, and no further action by taxpayers may be needed at this time.
<b>Increased</b>	<b>Estate and gift tax exemption</b>	Effective for decedents dying, and gifts made, in 2018, the estate and gift tax exemption has been increased to roughly \$11.2 million (\$22.4 million for married couples).
<b>Retained, exemption limits increased</b>	<b>Alternative minimum tax (AMT) exemption</b>	The AMT has been retained for individuals by the new law, but the exemption has been increased to \$109,400 for joint filers (\$54,700 for married taxpayers filing separately), and \$70,300 for unmarried taxpayers. The exemption is phased out for taxpayers with alternative minimum taxable income over \$1 million for joint filers and over \$500,000 for all others.

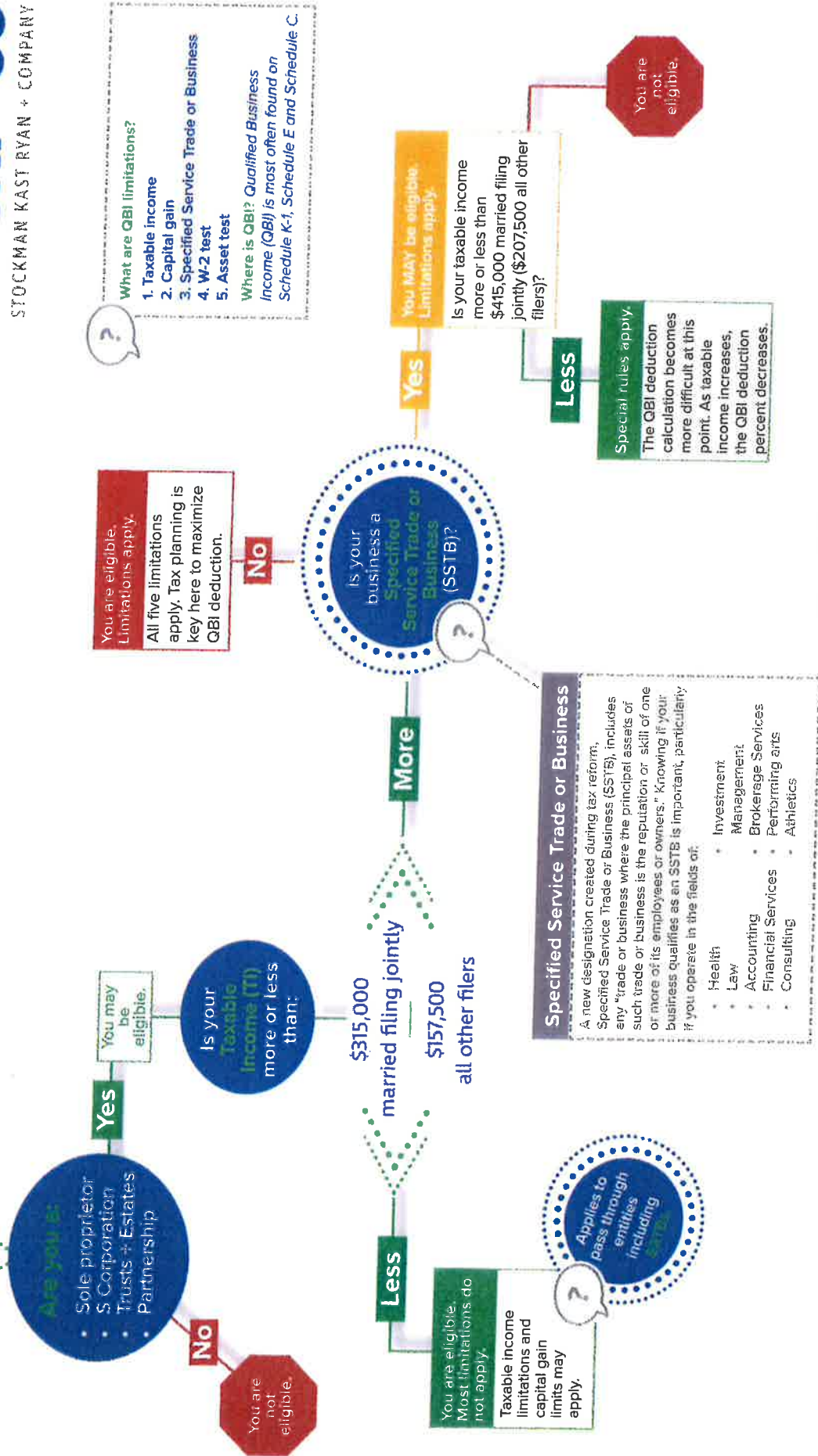
## Deductions

<b>Increased</b>	<b>Standard deduction</b>	The new law increases the standard deduction to \$24,000 for joint filers, \$18,000 for heads of household, and \$12,000 for singles and married taxpayers filing separately. Given these increases, many taxpayers will no longer be itemizing deductions. These figures will be indexed for inflation after 2018.
<b>Limit Changed</b>	<b>State and local taxes (SALT) deductions</b>	The itemized deduction for state and local income and property taxes is limited to a total of \$10,000.
<b>Limit Changed</b> <i>Specific effective dates apply.</i>	<b>Mortgage interest deductions</b>	Starting with loans initiated in 2018, home mortgage interest on loans used to <i>acquire</i> a principal residence and a second home is only deductible on debt up to \$750,000 (down from \$1 million).
<b>Discontinued</b>	<b>Home equity loan deductions</b>	There no longer is any deduction for interest on home equity loans, regardless of <b>when</b> the debt was incurred.
<b>Discontinued</b>	<b>Miscellaneous itemized deductions</b>	There is no longer a deduction for miscellaneous itemized deductions formerly deductible to the extent they exceeded two percent of adjusted gross income. This category included items such as tax preparation costs, investment expenses, union dues and unreimbursed employee expenses.
<b>Threshold Decreased</b> <i>Specific effective dates apply.</i>	<b>Medical expenses deduction</b>	Under the new law, <b>for 2017 and 2018</b> , medical expenses are deductible to the extent they exceed 7.5 percent of adjusted gross income for all taxpayers. Previously, the AGI "floor" was 10% for most taxpayers.

<b>Suspended</b>	<b>Casualty and theft losses deduction</b>	The itemized deduction for casualty and theft losses has been suspended except for losses incurred in a federally declared disaster area.
<b>Suspended</b>	<b>Overall limitation on Itemized deductions</b>	The new law suspends the overall limitation on itemized deductions that formerly applied to taxpayers whose adjusted gross income exceeded specified thresholds. The itemized deductions of such taxpayers were reduced by 3% of the amount by which AGI exceeded the applicable threshold, but the reduction could not exceed 80% of the total itemized deductions, and certain items were exempt from the limitation.
<b>Eliminated</b>	<b>Moving expenses deductions</b>	The deduction for job-related moving expenses has been eliminated, except for certain military personnel. The exclusion for moving expense reimbursements has also been suspended.
<b>Penalties</b>		
<b>Eliminated</b> <i>Specific effective dates apply.</i>	<b>Health care "individual mandate"</b>	Starting in 2019, there is no longer a penalty for individuals who fail to obtain minimum essential health coverage.
<b>Credits</b>		
<b>Increased</b>	<b>Child and family tax credit</b>	The new law increases the credit for qualifying children (i.e., children under 17) to \$2,000 from \$1,000, and increases to \$1,400 the refundable portion of the credit. It also introduces a new (nonrefundable) \$500 credit for a taxpayer's dependents who are not qualifying children. The adjusted gross income level at which the credits begin to be phased out has been increased to \$200,000 (\$400,000 for joint filers).
<b>Other Changes</b>		
<b>Expanded</b>	<b>529 plan rules</b>	Expanded to include expenses for tuition in connection with enrollment or attendance at an elementary or secondary public, private, or religious school. Thus, tax-free distributions from 529 plans can now be received by beneficiaries who pay these expenses, effective for distributions from 529 plans after 2017.



# Am I eligible for the new 20% Qualified Business Income (QBI) Deduction?





## **How to Classify a Worker – Employee or Independent Contractor?**

To determine worker classification from the IRS point of view, see Form SS-8, *Determination of Employee Work Status for Purposes of Federal Employment Taxes and Income Tax Withholding*. (See the IRS's website at [www.irs.gov](http://www.irs.gov).) Here is a summary of the SS-8 factors, gleaned mostly from court decisions.

### **Factors Tending to Show the Worker Is an Employee of Your Business:**

- You require—or can require—the worker to comply with your instructions about when, where, and how to work.
- You train the worker to perform services in a particular manner.
- You integrate the worker's services into your business operations.
- You require the worker to render services personally; the worker can't hire others to do some of the work.
- You hire, supervise, and pay assistants for the worker.
- Your business has a continuing relationship with the worker or work is performed at frequently recurring intervals.
- You establish set hours of work.
- You require the worker to devote the majority of the work week to your business.
- You have the worker do the work on your premises.
- You require the worker to do the work in a sequence that you set.
- You require the worker to submit regular oral or written reports.
- You pay the worker by the hour, week, or month, unless these are installment payments of a lump sum agreed to for a job.
- You pay the worker's business or travel expenses.
- You furnish significant tools, equipment, and materials.
- You have the right to discharge the worker at will and the worker has the right to quit at will.

### **Factors Tending to Show the Worker Is an Independent Contractor**

- The worker hires, supervises, and pays their assistants.
- The worker is free to work when and for whom they choose.
- The worker does the work at their own office or shop.
- The worker is paid by the job or receives a straight commission.
- The worker invests in facilities used in performing services, such as renting an office.
- The worker can realize a profit or suffer a loss from their services, such as a worker who is responsible for paying salaries to their own employees.
- The worker performs services for several businesses at one time (although sometimes a worker can be an employee of several businesses).
- The worker makes their services available to the general public.
- The worker can't be fired so long as they meet the contract specifications.

### **People Who Are Automatically Employees by Law**

In most situations, the status of a worker is determined by the above-listed factors, however certain workers fall into special tax categories, and the usual IRS criteria don't apply. Workers who are automatically **employees** include:

- officers of corporations who provide service to the corporation
- food and laundry drivers
- full-time salespeople who sell goods for resale
- full-time life insurance agents working mainly for one company, and
- at-home workers who are supplied with material and given specifications for work to be performed.

