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As part of Winningham Becker & Company, LLP's continuing effort to keep you up to date on current financial and tax related issues, here is some information which may be of interest to you.

TCJA Update

Your Tax Refund Could Disappear and be Replaced with a Big Balance Due!

If your itemized deductions include large state and property taxes, you could be in for a big, unpleasant surprise. Under the new Tax Cuts and Jobs Act (TCJA), if you have been itemizing your deductions, your federal tax will most likely increase. Not only will you owe more tax, but you could be penalized for not paying enough tax through withholding or estimated taxes.

Want to make sure this new law doesn't surprise you with a big balance due? Contact our office immediately so we can review your fourth quarter estimate and make sure you are covered. The nominal fee we will charge you is small in comparison to the large tax bill you could be stuck with.

We look forward to helping you navigate this tax law change and protect you from an unexpected bill.

Meal and Entertainment Expenses for your Business Just Got Complicated.

Before 2018, businesses could deduct 50% of business-related meal and entertainment expenses. The Tax Cuts and Jobs Act (TCJA) eliminated the deduction for entertainment expenses incurred after 2017. Business-related meal expenses, on the other hand, remain 50% deductible. That raised an important question: Are food and beverages purchased while entertaining clients/customers considered entertainment expenses that are no longer deductible? Or are they business-related meal expenses that continue to be 50% deductible? This has created a lot of uncertainty surrounding a time-honored, well used, and legitimate business practice of wining and dining clients.

Fortunately, the IRS has recently given us the answer to this question, and it's good news. Although the TCJA eliminated the deduction for entertainment expenses, food and beverages purchased while entertaining clients continue to be 50% deductible under the longstanding requirements, but only if they are purchased separately or stated separately on the bill, invoice, or receipt.

For example, if you take a customer to a ball game and purchase tickets in a suite where food and beverages are provided, none of the ticket cost is deductible unless the cost of the food and beverages is stated separately on the bill, invoice, or receipt. In that case, 50% of the food and beverage costs are deductible, while the rest of the ticket cost is a nondeductible entertainment expense. Of course, the IRS warns that the entertainment disallowance rule cannot be circumvented by inflating the amount charged for food and beverages.

This pretty well means that it's business as usual for these entertainment-related meal expenses, with the added requirement that, to be deductible, the cost of food and beverages must be purchased separately or stated separately on the bill, invoice, or receipt.

Note: It's important to remember that the longstanding rules for entertainment-related meals continue to apply – namely, to be 50% deductible, the expenses must not be lavish; you or one of your employees must be present at the event; and the person being entertained must be a current or potential business customer, client, consultant, or similar business contact. Also, business must be conducted during the event (or immediately before or after) and the time, place, business purpose, and business relationship of the attendees must be documented.

Timing of itemized deductions and the increased standard deduction

The Tax Cuts and Jobs Act, signed into law in December 2017, substantially increased the standard deduction amounts and made significant changes to itemized deductions, generally starting in 2018. (After 2025, these provisions revert to pre-2018 law.) It may now be especially useful to bunch itemized deductions in certain years; for example, when they would exceed the standard deduction.

IRA and retirement plan contributions

For 2018, you can contribute up to $18,500 to a 401(k) plan ($24,500 if you're age 50 or older) and up to $5,500 to a traditional or Roth IRA ($6,500 if you're age 50 or older). The window to make 2018 contributions to an employer plan generally closes at the end of the year, while you typically have until the due date of your federal income tax return (not including extensions) to make 2018 IRA contributions.

Charitable Givers Beware; You Could be Missing Out on Your Tax Benefits.

Are you a charitable giver? The Tax Cuts and Jobs Act (TCJA) can make it more difficult to gain tax benefits from our generosity. Here are 5 things to consider to help you maximize your benefits:

1. Increased Charitable Deduction Limit

Previously, you were only able to deduct 50% of your Adjusted Gross Income (AGI) for cash contributions to public charities and the TCJA has now increased that to 60%. While this limit increase is good news for some, most people don't donate enough to benefit from this change.

2. Much Bigger Standard Deductions

To receive any tax-saving benefits, your itemized deductions (including charitable donations) must exceed the standard deductions for that year.

For 2018, the standard deductions are as follows

- Married, joint-filing couples - $24,000
  ($26,600 if you are both over 65)
- Head of household - $18,000
  ($19,600 if you are over 65)
- Others - $12,000
  ($13,600 if you are over 65)

To ensure your itemized deductions (including charitable donations) exceed the standard deduction, consider bunching your donations together in alternating years. That way your total itemized deductions may exceed the standard deductions amount every other year.

3. Donations to Obtain College Athletic Event Seating Rights

Previously, you were allowed to treat 80% of a payment to benefit a college or university as a charitable donation when it entitled you to receive the right to buy tickets to athletic events in the institution's stadium. That has now been eliminated by the TCJA and you are no longer allowed to claim any of the payment as a charitable donation effective 01/01/2018. This change is permanent.

4. Charitable Donations from IRAs More Attractive Than Ever

If you are age 70½ or older, you can make cash donations to IRS-approved charities directly from your IRA. These Qualified Charitable Distributions (QCDs) allow you to replace some or all of this year's taxable IRA minimum distributions.

5. Consider Establishing a Donor-Advised Fund

Donor-Advised funds established to benefit IRS-Approved charities are a cost-effective alternative to private foundations. They can be established with minimal start-up costs and offer immediate income tax deductibility, no excise tax, no annual tax reporting, reasonable annual expenses, and, if desired, anonymity.

To learn more about any of the 5 points above, give us a call and see how we can help you maximize your tax benefits.