November Monthly Newsletter 2018

Important Reminders

Sunday, Nov 11th: Veterans Day

Thursday, Nov 22nd: Thanksgiving

Friday, Nov 23rd: Black Friday (shopping deals day)

Monday, Nov 26th: Cyber Monday (online deals day)

Tuesday, Nov 27th: #GivingTuesday (charitable giving day)

Reminder: Conduct year-end tax and financial planning

It's November and the holiday season is upon us. With the end of the year less than two months away, now is the time to run down your annual year-end checklist. Before you dig in to some turkey and stuffing, check out the 5 Annual Tax Essentials article for some year-end tips you can use every year. Also included in this issue is a warning to retirees regarding their federal tax withholdings, an article detailing the areas the IRS scrutinizes a business during an audit, and some turkey trivia you can use to impress your friends.

Please call if you would like to discuss how any of this information relates to you. If you know someone that can benefit from this newsletter, feel free to forward it to them.

5 Annual Tax Essentials

The more things change the more they stay the same. This is especially true when it comes to reviewing your tax situation. Mark your calendar to review these essential items each year to ensure you are not missing something that could cause tax trouble when you file your tax return:

1. **Required minimum distributions**
   If you are 70½ or older, you may need to take required minimum distributions (RMDs) from your retirement accounts. RMDs need to be completed by Dec. 31 every year after you turn the required age. Don't forget to make all RMDs because the fines are extremely hefty if you don't – 50 percent of the amount you should have withdrawn.

2. **Your IRS PIN**
   If you are a victim of IRS identity theft you will be mailed a one-time use personal identification number (PIN) as added security. You can expect to receive your PIN in the mail sometime in December. Save the PIN as it is required to file your Form 1040. If you would like to sign up for the PIN program, you can do so on the IRS website. Note that once you are enrolled in the program, there is no opt out. A PIN will be required for all future filings with the IRS.

3. **Retirement Contributions**
   You may wish to make some last-minute contributions to qualified retirement accounts like an IRA. This can be $5,500 for traditional or Roth IRAs plus an additional $1,000 if you are 50 or older. Contributions to traditional IRAs need to happen by April 15, 2019 to be deducted on your 2018 tax return.

4. **Harvest Gains and Losses**
   Profits and losses on investments have their own tax rates from 0 percent to as high as 37 percent. Knowing this, make plans to conduct an annual tax review of investment moves you wish to make. This includes:

   - Understanding investments held longer than one year have lower tax rates as long-term capital gains.
   - Trying to net ordinary income tax investment sales with long-term investment losses.
   - Making full use of the annual $3,000 loss limit on investment sales

   Timing matters with investment sales and income taxes, so having a year-end strategy can help lower your tax bill.

5. **Last-Minute Tax Moves**
   While your last-minute tax move opportunities may be limited, here are a few ideas worth considering:

   - Make donations to your favorite charities to maximize your itemized deductions.
   - Consider contributions of up to $100,000 from retirement accounts to qualified charities if you are older than 70½.
   - Make tax efficient withdrawals from retirement accounts if you are over 59½.
   - Delay receipt of income or accelerate expenses if you are a small business.
   - Take advantage of the annual $15,000 gift-giving limit.

Understanding your current situation and having a plan will make for a smooth tax filing process and maximize your tax savings.

STEPHENSON & WARNER, INC.
CERTIFIED PUBLIC ACCOUNTANTS

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Don't Let a Disaster Derail Your Business

With the recent frequency of hurricanes, earthquakes, tornadoes, floods and wildfires, it's worth reviewing ideas to ensure your business can survive if it faces its own disaster. Here are some steps you can take to create a disaster plan for your business:

- **Identify your exposure.** The first step is to conduct an evaluation of your business to identify possible threats. Threats will vary by business depending on geography, industry, size and other factors. Once the threats are identified, create lists of risks your business would face under each type of threat.
- **Mitigate where possible.** Once you understand your business risks, brainstorm steps you can take to mitigate your exposure. For example, if loss of data is a common risk, implementing an off-site backup system might be a good idea. The more you can minimize risks on the front end, the quicker you can get back to normal operations after a disaster strikes.
- **Create a disaster plan.** Decide in advance what steps you and the business will take if a disaster happens. This will include things like communication, medical considerations, evacuation routes, stay-in-shelter plans, and equipment protection. The Federal Emergency Management Agency (FEMA) put together a business information booklet to help you consider all factors.
- **Test your plans.** Once your plans are in place, test as many of them as you can. These tests will help you identify potential holes in your plans and serve as a great way to communicate the processes to your employees. Going through the motions in a test environment will increase your chance of success if you experience a real emergency.
- **Understand tax deductions.** If you incur losses from a disaster, there are many factors that go into how the losses are deducted on your taxes. Some of the considerations are insurance proceeds, basis adjustments, disaster classifications and improvement capitalization. Set up a meeting to discuss what is best for your situation.

Disasters are often unavoidable, but having a plan in place before they hit can reduce the impact they have on your business and employees.

Retirees Should Check Withholdings...or Else...

According to a recent announcement by the IRS, retirees might not be withholding enough for taxes this year. This is due to vast tax changes in 2018, making old withholding levels obsolete. The IRS is urging retirees to check their withholdings now and make adjustments if needed to avoid penalties.

Could it be you?

How do you know if you are withholding enough? While the IRS offers a new withholding calculator online, it's designed for employees who are paid wages – not a great option for retirees. The only good way to avoid a tax surprise is to conduct a projection based on your specific situation. You will need to consider taxes already paid, taxes yet to be paid, and estimate total income and deductions to come up with an accurate projection.

Steps to take

If the results of the projection show that you are lagging behind, you still have a bit of time to adjust withholdings or make estimated tax payments. Here are some ways to do this:

- **Adjust pension withholding.** In order to change your pension withholdings, you need to fill out Form W-4P and give it to your pension plan provider.
- **Adjust IRA distribution withholding.** To change IRA withholdings, typically you can go online or call the account provider to update the withholding amount or percentage.
- **Adjust Social Security voluntary withholding.** To adjust the voluntary withholding on your Social Security payments, you need to fill out Form W-4V and return it to your local Social Security office by mail or in person.
- **Make an estimated payment to the IRS.** If withholdings won't be enough or you are worried about timing, you can make a payment to the IRS directly. Form 1040-ES has a voucher that can be sent with the payment and needs to be postmarked by Jan. 15, 2019 to be applied to your 2018 taxes.

Remember, penalties can be added to your taxes if you don't pay enough during the year, so it's important to review your withholdings as soon as possible to avoid a surprise when you file your taxes. Sound complicated? It can be. Please call if you want help evaluating your situation.

How to Survive 3 Unavoidable Banking Trends

Smartphones and other technological advances enable banks to create products and services that dramatically change the way you bank. Here is a primer on three of the biggest banking trends and tips to protect your money:

1. **The traditional bank branch is going away.** A recent report from consultants McKinsey & Company claims an average of three bank branches are closing every day. Many of the branches that remain open are either closing their lobby or drive-through lanes. Branches don't appear to be going away completely, however, as 80 percent of Americans still prefer human interaction, according to the same McKinsey & Company report. What is likely to change is the manner in

which the banker and customer interact. Banking agents roaming branches with tablets (rather than meeting customers at a desk) and teller-less, video-operated bank pods are on the horizon.

Tip: *When choosing a bank, understand how it wishes to do business with you. Some will install financial barriers if you want to have a traditional banking relationship. This includes charging you for making deposits, refusing to accept mail deposits, refusing to take coins, charging fees for check writing and other hidden fees.*

2. **Mobile deposits are becoming more popular.** Most banks offer a deposit option that allows you to take a picture of a check on your phone and upload it to the bank's system to be deposited. According to Bank of America CEO Brian Moynihan, more customers now deposit checks on their mobile phones than in branches. Mobile deposits are extremely convenient, but they have their own set of rules to follow, including endorsements, deposit limits, posting timing and record retention.

   Tip: *Understand all the factors before using your phone to deposit a check. Also, read the terms of use before using remote deposit applications. Remember, you are creating a digital link between your phone and your personal banking information.*

3. **Mobile wallets are replacing physical wallets.** Mobile wallets like PayPal, Apple Pay and Zelle give users a convenient way to pay online, pay friends directly and even make payments in stores. According to Apple Pay VP Jennifer Bailey, Apple Pay is accepted at 50 percent of all retail stores. Each mobile wallet operates a little differently, but the goal is to get users to ditch traditional payment methods and get them on their platform. For the most part, all you need is a bank account and the provider's mobile app and you can start making payments. In addition to convenience, the idea is that new encryption and biometric technologies (like fingerprints and face recognition) give more protection than traditional credit card transactions.

   Tip: *If you are looking to use a mobile wallet, compare the services to see which one would work best for you. Pay special attention to any consumer complaints and problems others are having with your service of interest.*

Even with so many changes and countless options available to you, the point remains that it's your money and you control where to put it. Do the research, talk to friends about banks they use, and ask questions before deciding who to trust with your money.

The IRS Loves Your Business ... and That is NOT Good

The IRS continues to focus their audit activities in key small business areas. The wise business owner is well advised to be able to defend the following five areas to keep the IRS at a comfortable distance:

- **Business or hobby?** Be ready to provide proof your business is truly a business and not a hobby. Those who fail in the eyes of the IRS can have their expense deductions severely limited, while still required to report the income. Make sure you can answer and provide documentation for these four questions:

   a. What is your profit motive?
   b. Are you an active participant in the business?
   c. Are you conducting the activity in a business-like manner?
   d. What expertise do you have in the service or products your business provides?

- **Reasonable shareholder salary.** S corporations are in the unique situation where some compensation is excluded from payroll taxes. Many businesses take this too far. The IRS is looking closely at businesses who avoid paying a reasonable salary in order to lower their Social Security and Medicare bills. When determining salaries for shareholders, consider their experience, duties, responsibilities and time devoted to the business. Once you have a picture of their ongoing contributions to the business, research comparable positions and salary ranges to pinpoint a fair salary. Save your findings and calculations as backup to provide in the event of an audit.
- **Contractors or employees?** Make sure consultants and other suppliers are not employees in disguise. The IRS looks at how much control you have over the work being done – the more control you exert the higher likelihood you may have an employee versus a contractor. Penalties can be very steep if the IRS decides your consultant is really your employee. If in doubt, ask for a review.
- **Expenses for meals and entertainment.** The IRS is now disallowing any entertainment deductions, even if there is business conducted before or after the event. That means business meal documentation is now more important than ever and should include receipts, who attended the meal, and the business purpose of the meal. Bringing food in for business lunches rather than going out is a safe way to show business intent. If you have an event with both entertainment and food included, get two receipts - one for the entertainment and one for the food.
- **File your Forms W-2 and Forms 1099.** Don't forget to file all required 1099s and W-2s. Most of them are due on or before Jan. 31. The IRS is penalty crazy in this area with up to $270 per missing or incorrect form.

Knowing what the IRS is looking for helps you prepare should it turn its focus to your business.

Turkey Trivia

With Thanksgiving right around the corner, here is a quiz to test your turkey knowledge and provide some facts you can use to stump your friends and family:

Where do wild turkeys sleep?

a. In trees
b. On the ground in brush or tall grass
c. In burrows
d. On large rocks

a. In trees. Turkeys spend their nights sleeping in trees mostly for protection from predators. The only exception is when female hens risk danger to stay with their eggs on the ground during the roughly 28 day incubation period.

How far away can a turkey see movement?

a. 20 feet
b. 50 feet
c. 50 yards
d. 100 yards

d. 100 yards. Turkeys have excellent vision — maybe three or four times better than humans. Because their eyes are on the sides of their head, they have periscope vision and can see 360 degrees with the simple twist of their neck.

Which U.S. president was the first to offer an official pardon to a Thanksgiving turkey?

a. Abraham Lincoln
b. Harry Truman
c. John F. Kennedy
d. George H.W. Bush

d. George H.W. Bush. While there were informal pardons and stories about turkeys spared by U.S. Presidents dating back to Abraham Lincoln, the White House records show the first official pardon was granted by George H.W. Bush in 1989.

What is the specific name for a baby turkey?

a. Chick
b. Poult
c. Peep

d. Cygnet

b. Poult. Once a poult frees itself from the egg, it can start following its mother hen away from the nest within 12-24 hours.

Approximately how many turkeys are consumed each year at Thanksgiving?

a. 19 million
b. 33 million
c. 46 million
d. 62 million

c. 46 million. According to the National Turkey Federation, Thanksgiving turkeys account for 18 percent of all turkeys raised on American farms this year.

Now you are in the know about some of the unique habits of our popular holiday centerpiece. Enjoy your Thanksgiving!

As always, please feel free to call if you have any questions or concerns regarding your tax situation.