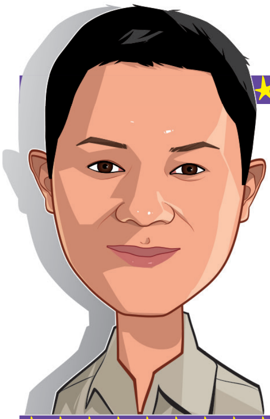
Alvin Caballero, CPA

March 2018



The Main Street Accountant

...For all your main stream needs

Welcome to the March 2018 edition of **The Main Street Accountant Newsletter!** With Tax Season in full swing, the office is so alive with new and current clients coming in everyday. * Enjoy this Tax Season Special Edition!

I understand that there are a lot of questions about the new Tax Reform, so this month's edition starts with an article titled, *"9 Key Legislative and Regulatory Changes to Affect Small Businesses This Year."*

Do you know the difference between exemptions, credits, and deductions? The Tax Corner breaks down what each of these are, how they work, and how you can apply them to your tax return for a higher refund (hopefully). Following is the *"4 Big Benefits of Filing Your Tax Return Early"* - knowing how your gain (or loss) will affect you.

Enjoy this Tax tip filled edition!

Until next time,

Alvin Caballero, CPA

9 Key Legislative and Regulatory Changes to Affect Small Businesses This Year

Will your business be impacted by legislative reforms and regulatory changes in 2018? This list of the most significant changes will help you keep pace with the issues most likely to affect you.

1)Tax Reform. In the final weeks of 2017, the GOP passed the first major tax overhaul in decades. It happened quickly, leaving businesses to catch up quickly as new provisions go into effect for 2018.

The vast majority of U.S. businesses are pass-through entities, which utilize the Tax Code and will therefore be directly impacted by its changes. To reduce the tax burden for such entities, Congress added a reduction of business income of up to 20% for pass-throughs. However, taking advantage won't be a simple matter for some – there are complex requirements which may evolve over time. It's an area that my firm will be watching closely.

Note that the tax reform also means employers will have to implement withholding changes according to the IRS's updated tables.

2) Tax Reform and the ACA. Under the Affordable Care Act, individuals must prove that they have qualified health insurance coverage or qualify for an exemption on their tax returns – or face a penalty from the IRS. However, the recent tax reform bill negates the individual mandate penalty, reducing it to $0 by 2019. Even though the tax bill doesn't repeal the provision, negating the penalty essentially has the same effect.

The IRS says it won't delay individual tax returns that don't include the taxpayer's health insurance information, other ACA provisions remain unchanged, such as the employer shared responsibility provision.

What does this mean for employers? Do your due diligence in preparing for the current year ACA filing obligations, as well as in collecting tax year data for 2018 for next year's filing.

3) Ladies and Gentlemen: Equal Pay? The EEO-1 Form, which would have required covered employers to report wages and hours worked, was supposed to have been revised for 2018. However, those changes were stayed by the Office of Management and Budget in 2017. However, employers still need to submit EEO-1 form for the fourth quarter of 2017 by March 31, 2018.

What's not yet known is whether or not the new appointees of the EEOC will even look at the employer wage data as they consider their strategic plan for fiscal years 2017-2021, which looks at gender-based pay discrimination enforcement.

4) State-Run Retirement Plans. So far, nine states have enacted laws allowing for state-run retirement savings plans. Details and employer requirements vary by state. They may operate either as a Roth IRA, a multiple employer plan (MEP), or as a marketplace from which plans can be chosen. In some cases employees are automatically enrolled; in some cases, enrollment is entirely voluntary.

Oregon is ahead of the pack with its OregonSaves program. In the case of some larger employers, registration deadlines began in November of 2017.

States looking at roll-out in 2018 or 2019 include:

California Connecticut Illinois Maryland Vermont Washington

States that have not yet specified a rollout date include:

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Key Legislative and Regulatory Changes to Affect Small Businesses This Year

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Massachusetts *New Jersey*

22 other states and municipalities have introduced legislation that supports the creation of state-run programs.

If your business does not offer retirement plan benefits to its employees, you'll want to keep an eye on developments for your state.

5) Overtime. In 2018, we can expect more developments around the Final Overtime Rule released by the Department of Labor under the Obama administration. Just this past summer, the U.S. Department of Labor solicited public comment on existing regulations, a step in the process of revising overtime regulations.

6) Paid Leave. There's been a lot going on lately at the state and local level around paid sick leave, and there will be more to come in 2018 – particularly around family paid leave. More than 40 states and local jurisdictions have already passed sick leave laws that apply to private employers. In 2018, New York is expected to lead the way with the most comprehensive family leave laws in the U.S.

What's inside paid leave laws that matters to businesses like yours? Provisions related to things like:

Employer coverage *Employee eligibility*
Notice requirements *Recordkeeping*
Employer taxes *Penalties*
Employee payroll deductions

There will also be a need to coordinate with related federal laws, like the Family and Medical Leave Act.

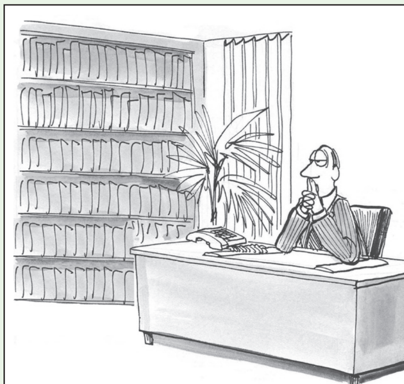
Additionally, the Workflex in the 21st Century Act, if passed by Congress, could pre-empt many paid leave laws at state and local levels, in cases where employers voluntarily offer paid leave and flexible work schedules as prescribed in the legislative proposal.

7) Verifying Employee Identity. In 2017, revisions were made to Form I-9, the "Employment Eligibility Verification Form". This form is used to meet the federal requirement of verifying an employee's identity and eligibility to work in the United States. Employers must be sure to:

- Use the correct form
- Provide the complete form – including all instruction pages – to the employee on their first day of work

Employers are also being warned by Immigration and Customs Enforcement that 2018 will see a spike in worksite inspections.

Additionally, the current I-9 form could be phased out and replaced by an e-verify system, depending on what happens with the Legal Workforce Act which was introduced last year.


He waited for the next wave of regulations to arrive.

8) New, Quicker Modes of Payment. The second phase of Same Day ACH – which allows for debts up to $25K – became a payment option in September of 2017, boosting cash flow management. Throughout 2018, small businesses will find it easier to leverage faster payment options as they become more simplified and available. In March 2018, for Same Day ACH funds availability, financial institutions will be required to meet a deadline of 5:00 p.m. local time.

Also in 2018, it's expected that more real-time payment solutions will be available, which will be important to those involved in the rising gig economy. Quicker, easier options for tipping employees are also anticipated. As faster payment opportunities become available, businesses will want to work with their financial institutions, payment processors and vendors to take advantage of the most suitable new options.

9) Privacy & Security. Is your business doing enough to protect sensitive information? Recovery from a security breach can cost a fortune, destroy your reputation, even get you sued. Add to those worries the regulatory risks. Businesses with inadequate security leading to data breaches are subject to investigations and legal action from states' attorneys general and federal regulatory agencies, such as the Consumer Financial Protection Board and the Federal Trade Commission.

State agencies in Colorado and New York have already enacted cybersecurity rules, and they're making other states consider regulating and enforcing data security standards against insurance and financial services businesses.

We may also see the introduction of national privacy standards for the collection and use of data from biometric technology, as we're already seeing in Illinois, Texas and Washington. ◆

Quotes:

"All growth depends upon activity. There is no development physically or intellectually without effort, and effort means work." ***– Calvin Coolidge***

"Those at the top of the mountain didn't fall there." ***– Unknown***

"I'm a greater believer in luck, and I find the harder I work the more I have of it." ***– Thomas Jefferson***

"The difference between try and triumph is just a little umph!" ***– Marvin Phillips***

"Every time you stay out late; every time you sleep in; every time you miss a workout; every time you don't give 100% – You make it that much easier for them to beat you." ***– Unknown***

TAX CORNER

Exemptions, Credits, and Deductions – OH MY

Knowing the difference between an exemption, a credit and a deduction, can be confusing. In this article, we are going to summarize each topic for you.

EXEMPTIONS.

A tax exemption can reduce or eliminate your obligation to pay taxes. For tax purposes, there are two categories of exemptions: personal exemptions, and dependency exemptions. Each exemption that is claimed reduces income that is subject to tax by the exemption amount.

Q1: What is a personal exemption and how does it work?

A1: A personal exemption is the dollar amount that each individual taxpayer can deduct for him or herself or a dependent each year on their tax returns. Prior to the passing of the Tax Cuts and Jobs Act (TCJA), there was a certain amount allowed for each personal exemption. For tax year 2017, that amount is $4,050. For now, the Tax Cuts and Jobs Act has eliminated the personal exemption amount, which became effective as of January 1, 2018.

Q2: What is a dependency exemption and how does it work?

A2: For tax purposes, there are two categories of dependents, qualifying child(ren) and qualifying relatives. Each dependency exemption decreases income subject to tax by that exemption amounts. Note that the IRS has strict requirements for determining who qualifies as a dependent. In addition to the Internal Revenue website, there are countless other online sources that you can refer to for more specifics on the requirements.

CREDITS.

Q1: What is a tax credit and how does it work?

A1: A tax credit is an amount of money that taxpayers are permitted to subtract from taxes owed. Instead of reducing taxable income, tax credits reduce the actual amount of taxes owed. There are numerous tax credits, which either fall under the categories of a refundable, non-refundable, or partially refundable credit.

Q2: How does refundable, non-refundable, and partially refundable credits work?

A2: A refundable credit can reduce your tax liability to below zero, which means that any excess of the credit is issued to you in the form of a refund. A non-refundable credit is subtracted from your income tax liability up to the amount that is owed. If the credit amount exceeds your tax liability, the excess amount is basically lost. The excess amount does not create a refund for you like a refundable credit does. There are some credits that fit into both the refundable and non-refundable credit categories. These credits are referred to as partially refundable credits. With this type of credit, only a certain portion of the credit can be refunded to you. With a partially refundable credit, it can be subtracted from the amount of taxes owed and to a certain extent, applied to increase the tax refund. As you can see, the partially refundable credit is not as straight forward as the refundable and non-refundable credits. Some examples of refundable credits are as follows:

- Additional child tax credit
- Earned income credit (EITC)
- Health coverage tax credit

Examples of non-refundable credits:

- Adoption tax Credit
- Child Tax Credit
- Mortgage Interest Tax Credit

Note that the above lists include only a few of the credits that fall under the refundable and non-refundable credit categories. You can refer to various other online sources for a more complete list of refundable, non-refundable, and partially refundable credits (Or reach out to our office).

DEDUCTIONS.

Even though a tax deduction reduces your taxable income like an exemption does, deductions usually arise from some type of expense. The difference between a tax credit and a deduction is that tax credits provide a dollar for dollar reduction of income tax liability, whereas a tax deduction lowers your taxable income and is equal to the percentage of your marginal tax rate. Some examples of deductions are as follows:

- Medical Expense Deduction
- Charitable Deductions
- Half of self-employment tax for self-employed individuals

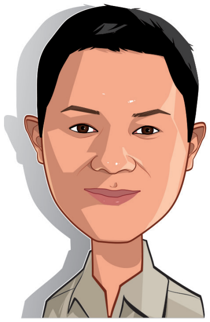
In summary, the difference between an exemption, credit, and deduction is that exemptions and deductions reduce your taxable income and credits reduce your tax liability.

Are You In Need of a Qualified Tax Pro?

If you are not my client and would like to explore whether we might be a good fit, please contact me. As a qualified tax professional, I not only know all the rules, but can also help you deal with the IRS and help you decide how far to push a dispute.

Do You Have A Tough Accounting / Tax Question You Want Answered?

I love hearing from my small business clients and friends who enjoy reading my monthly newsletter. I'm always looking to answer pressing questions you might have relating to small business. If you have a question, tip or idea, please call me at (732)-902-2929 or email me at info@caballerocpas.com. Perhaps I'll feature you in a future issue!



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See What's Inside...

SPECIAL TAX SEASON EDITION

4 BIG Benefits of Filing Your Tax Return Early

1) Receive your refund sooner.

If you are due a refund, it only makes sense to file sooner, rather than later. Besides, why let the IRS hold on to your money longer than they have to. Receiving your refund sooner, allows you to take care of some bills that you might want to pay, plan a long overdue vacation, or simply save it. Whatever you decide to do with the refund, it is your money to do what you please with it and should be in your possession, not the possession of the IRS and the state.

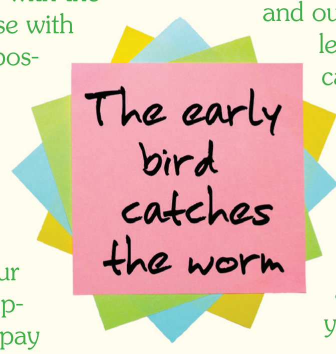
2) Tax due payment planning.

I can't think of anyone in their right mind who is ok with owing the IRS or a state taxing agency. Hopefully you are not one of those who will owe, but if you are, having your tax return prepared this early gives you the opportunity to figure out how you are going to pay the taxes due. If you owe and file early, at least you will have until the tax filing deadline date to pay the taxes due, unless you enter into an installment agreement.

Note that filing an extension, is only an extension of time to file your tax return, not to pay any taxes that are due. Unless you work out a payment plan with the IRS or state taxing agency, any taxes owed, are due by the April 15th tax filing deadline date. For 2018, the tax filing deadline is April 17th. If this date is a weekend or a holiday, then the due date is the next business day.

3) Avoid the stress of last minute filing.

Typically, if a person knows that they are going to owe, they wait until the last minute to prepare their tax returns. But waiting until the last minute doesn't allow much time for problems and questions that crop up, which more times than not, usually do. Yes, you know that you're going to owe, but waiting until the last minute to file isn't going to change that. Why not get the taxes prepared and out of the way. Even though you will owe, at least you will know how much you will owe and can possibly work out a game plan for coming up with the money before tax deadline day.



4) Some other benefits to filing your tax return early:

• Financial aid requires information from your tax returns. If you or your dependent is applying for financial aid, information from your tax return will be needed.

• If you are divorced or separated, and you and your ex-spouse or ex-significant other are feuding about who gets to claim the kid(s). In some cases, one parent will rush and claim the child(ren) without the other parent knowing, even if they weren't supposed to. When this happens, it is more of a hassle than not to get the matter straightened out.

• Whether you decide to file sooner rather than later, is up to you. However, if you end up owing, to avoid penalties and interest, be sure to file and pay, if you haven't made payment arrangements, before the tax deadline due date.