SBG Consulting, Inc. & Bookkeeping Matters, LLC

TAX ENGAGEMENT LETTERS ARE DUE 1/31/19

If you have not already received your engagement letters in the mail, you will soon! Letters will also be available in your SmartVault portal. If you have not received your letters by 1/14/19, please let us know. Your Statement of Work, Master Service Agreement, and FinCen must be signed and returned to SBG by 1/31/19. No exceptions!

BOOKKEEPING PSA'S ARE ON THE WAY

2019 Professional Service Agreements are currently being distributed. Be on the lookout for yours!

Table of Contents:

2019 Standard Mileage Rates

Business - 58 cents per mile see limitations below*
Charitable - 14 cents per mile
Medical - 20 cents per mile
Moving - 20 cents per mile see limitations below**

*Reminder the Tax Cuts and Jobs Act suspended the miscellaneous itemized deductions for unreimbursed employee business expenses from 2018 to 2025, therefore the standard mileage rate cannot be used to claim a deduction for those expenses during that period. an exception to that disallowance applies to members of a reserve component of the U.S. armed forces, state or local government officials paid on a fee basis, and certain performing artists. They are permitted to deduct mileage expenses on line 24 of Form 1040, *U.S. Individual Income Tax Return*, (an above-the-line deduction) and may continue to use the 58 cents per mile business standard mileage rate.

**The TCJA repealed the moving expense deduction for individual taxpayers from 2018 to 2025, except for U.S. armed forces members on active duty who move pursuant to a military order and incident to a permanent change of station to whom Sec. 217(g) applies.

CLIENT SPOTLIGHT

Rebecca is an AV rated attorney with COOPER|COONS, Ltd. and head of its Family Law Department. Rebecca has been involved in the practice of Family Law in Las Vegas, NV since 1987 and works in the areas of Domestic Relations and Mediation. Rebecca has previously served as an Executive Board Member of the Family Law Bench-Bar Committee, committee member on the Disciplinary Panel of the State Bar of Nevada for 9 years and is currently a Platinum Member of the Las Vegas Social Register. She was also a member of the Executive Council of the Family Law Section of the State Bar of Nevada for 8 years. Currently, Rebecca is a member of the Outsource Mediation Committee and a board member of Collaborative Divorce Group in Las Vegas, Nevada.

Rebecca was born and raised in Las Vegas, Nevada. She attended the University of Nevada Las Vegas, where she obtained a Bachelor of Arts Degree in Political Science. In 1986, Rebecca graduated from Pepperdine University School of Law where she was the recipient of both the American Jurisprudence Award in Family Law and the Los Angeles County Bar Family Law Scholarship. For the past 15 years, Rebecca has practiced Collaborative Divorce Law and Mediation as a major part of her Domestic Relations law practice.

Rebecca has always had a love of the law and courtroom drama. She enjoys fighting for people's rights and attempting to convince a Judge that her client's position should prevail. She grew up in a close knit family in Las Vegas and worked in her family's dry cleaning operation, where she developed a good business sense and excellent people skills by watching her parents make a success of their business. .

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New Qualified Opportunity Funds:
Helpful or Hype?

Have you heard that the Tax Cuts and Jobs Act tax reform's new qualified opportunity fund provision allows you to permanently defer capital gains? Qualified opportunity funds do provide an ability to defer (and potentially eliminate) some capital gains, but they aren't the panacea some make them out to be.

What Is It?

A qualified opportunity fund makes an investment in a designated low-income community, known as a qualified opportunity zone.[1] Governors designate what census tracts in their states are qualified opportunity zones.[2] Some tax professionals have noted designated zones adjacent to low-income areas that have considerable reclamation nearby, making them ripe for development.[3] The qualified opportunity fund must be a corporation or partnership for federal tax purposes.[4] You and your buddies could form the corporation or partnership, or you can find an existing corporation or partnership in which to invest.

Who Is Eligible

Individuals, C corporations, partnerships, S corporations, and trusts and estates are eligible to invest in the opportunity entity to obtain gain deferral under this provision.[5] If a pass-through entity doesn't choose to use this provision, or only partially defers an eligible gain, then you as a partner, shareholder, or beneficiary can elect to use the opportunity zone capital gains tax deferral for the eligible gain that passes through to you.[6]

How It Works

To qualify, your gain must meet three requirements:

- The gain must be a capital gain, either short term or long term.
- You'd have to recognize the gain for federal income tax purposes before January 1, 2027, without this provision.
- The gain isn't from a sale or exchange with a related person. Once you sell your gain property and recognize the gain, you'll have 180 days to invest the gain proceeds into the qualified opportunity fund.[8]

The 180-day period starts on the day you'd normally recognize the gain for federal income tax purposes. For example, for a stock sale, the 180-day period starts on the trade date.[9]

If your gain comes from a pass-through entity, then your 180-day period starts on the last day of the taxable year of that entity.[10] You don't have to invest all the proceeds—just the amount of gain you realized on the sale, or the portion of the gain that you want to defer. The basis is yours to keep.[11] And you don't have to make a one-time investment to obtain deferral.12 You can invest the capital gain you want to defer over time as long as each investment meets the 180-day period for your sale or exchange.[13]

Required Election

You'll make the election to defer the capital gain on your tax return.[14] The election is on a per-sale or exchange basis; therefore, if you have multiple sales, each sale can qualify if you invest the capital gains from each specific sale in a qualified opportunity fund.[15] (Remember, you invest the gain only—you get to keep the basis.)

We will be open to serve you on *Martin Luther King Jr. Day.*

Required Election

You'll make the election to defer the capital gain on your tax return.[14] The election is on a per-sale or exchange basis; therefore, if you have multiple sales, each sale can qualify if you invest the capital gains from each specific sale in a qualified opportunity fund.[15] (Remember, you invest the gain only—you get to keep the basis.)

Original Gain Deferral

You'll defer the gain from your original sale until the earlier of[16] the date you sell the qualified opportunity zone fund, or December 31, 2026. On the date above, your gain will be[17] the lesser of your deferred gain or the fair market value of the qualified opportunity zone fund, less your basis in the qualified opportunity zone fund. The longer you hold your qualified opportunity fund investment, the more basis you'll have in it when you sell it. Your basis in your qualified opportunity fund investment is the amount of deferred gain you eventually recognize upon its sale or on December 31, 2026, plus[18] 10 percent of your deferred gain if you hold the opportunity investment for at least five years but less than seven years, or 15 percent of your deferred gain if you hold the opportunity investment for seven or more years.

Permanent Deferral of Gain on Fund Investment

Here's where this provision can save you major bucks. If you hold the qualified opportunity zone fund investment for at least 10 years, then your basis in it is 100 percent of its fair market value on the sale date, leaving you with zero taxable gain on sale.[19]

Example

On December 1, 2018, you sell $8 million of stock with a cost basis of $3 million for a long-term capital gain of $5 million.

- Within 180 days, you invest the $5 million gain in a qualified opportunity fund.
- You make an election on your 2018 tax return to defer the $5 million in long-term capital gain income, meaning no taxes on this gain in 2018.
- On December 31, 2026, your qualified opportunity fund has a basis of $750,000 (15 percent of the deferred $5 million capital gain) since you held it for at least seven years.
- Let's assume the fund has a fair market value of $7 million on December 31, 2026. You'll have a deemed sale on December 31, 2026, and recognize $4.25 million in income, computed as follows:
- $5 million, which is the lesser of the deferred gain ($5 million) or the fair market value of the fund ($7 million), less $750,000, the basis in the fund.
- On January 1, 2027, your basis in the qualified opportunity fund is $5 million ($750,000 original basis plus $4.25 million of deferred gain recognized and taxed in 2026).
- If you sell the qualified opportunity zone fund in August 2028 for $10 million, then your basis in the fund is $10 million and you recognize no taxable gain on the sale, since you held it for more than 10 years.

Overall, you have a total of $10 million in gains from these transactions: $5 million from 2018 and $5 million in 2028. Using the qualified opportunity fund investment strategy, you temporarily defer $4.25 million of long-term capital gain from 2018 to 2026, and permanently exclude from tax $750,000 of long-term capital gain from 2018 and $5 million of gain in 2028.

Compared with a Section 1031 Exchange

With the opportunity fund, you invest only the capital gain component in obtaining the deferral. With a Section 1031 exchange of real estate, you invest both your basis and the capital gain to achieve deferral.

Beware

The idea of avoiding taxes on your capital gains certainly has appeal. But be wary. Don't let the capital gain deferral cloud your judgment on the merits of the opportunity fund investment. For this investment to work to your benefit, you need to make money on it. And you should want a good after-tax rate of return, as you

Takeaways

A qualified opportunity fund investment can temporarily defer your capital gains taxes, permanently delete up to 15 percent of the capital gains that would otherwise be subject to taxation, and create non-taxable capital gains on your investment in the qualified opportunity fund. To realize the first of the benefits, the first step-up in basis, the government makes you lock up your capital gain investment in the opportunity fund for at least five years. If your qualified opportunity fund doesn't appreciate, or you hold it for more than five years but less than 10 years, then your tax benefit is only a permanent exclusion of 15 percent of your deferred capital gain. For this strategy to make great financial sense, you need (a) appreciation in your qualified opportunity fund and (b) to hold the investment for at least 10 years so that the appreciation is tax-free to you when you sell your investment.

As you can tell this is quite complex, but for those looking for an opportunity, I suggest first start by looking at the zones that qualify which can be found at https://www.cdfifund.gov/Pages/Opportunity-Zones.aspx. Additional Q&A can be found at https://www.irs.gov/newsroom/opportunity-zones-frequently-asked-questions and https://www.cdfifund.gov/Pages/Opportunity-Zones.aspx. Since this is new to all of us. I would encourage you to do your own due diligence and then if it is of interest, feel free to call us for tax planning.

1 IRC Sections 1400Z-2(d), 1400Z-1(a).
2 IRC Section 1400Z-1(b)(1).
3 For example, see "Opportunity Zones May Be Optimal Deferral Option" by Stephanie Cumings, Tax Notes, December 3, 2018.
4 IRC Section 1400Z-2(d)(2)(A); Prop. Reg. Section 1.1400Z-2(d)-1(a).
5 Prop. Reg. Section 1.1400Z-2(a)-1(b)(1).
6 Prop. Reg. Sections 1.1400Z-2(a)-1(c)(2)(ii); 1.1400Z-2(a)-1(c)(3).
7 Prop. Reg. Section 1.1400Z-2(a)-1(b)(2)(i).
8 IRC Section 1400Z-2(a)(1)(A).
9 Prop. Reg. Sections 1.1400Z-2(a)-1(b)(4)(i); 1.1400Z-2(a)-1(b)(4)(ii), Ex. 1.
10 Prop. Reg. Sections 1.1400Z-2(a)-1(c)(2)(iii); 1.1400Z-2(a)-1(c)(3).
11 Ibid.
12 IRC Section 1400Z-2(a)(2).
13 Prop. Reg. Section 1.1400Z-2(a)-1(b)(2)(ii).
14 IRC Section 1400Z-2(a)(1).
15 IRC Section 1400Z-2(a)(2).
16 IRC Section 1400Z-2(b)(1).
17 IRC Section 1400Z-2(b)(2)(A).
18 IRC Section 1400Z-2(b)(2)(B).
19 IRC Section 1400Z-2(c).

Put Your Children on Your Payroll

Did your children under age 18 help you in your business this year? Did you pay them for their work? You should pay them for the work—and pay them on a W-2.

Why? **First,** W-2 wages paid by the parent to the parent's under-age-18 child for work done on the parent's Form 1040 Schedule C business are both

- deductible by the employer-parent, and
- exempt from federal payroll taxes for both the parent and the child.

Thus, if you operate your business as a sole proprietorship or single-member LLC taxed on Schedule C or as a spousal partnership, then you face no federal payroll taxes on the W-2 wages you pay your under-age-18 child. (And in most states, you also face no state payroll taxes.) Further, your child faces no federal payroll taxes. If you operate as a corporation, your child and the corporation pay payroll taxes. But that does not eliminate the benefits; it simply reduces them.

Second, thanks to tax reform, your child can use the 2018 standard deduction to eliminate income taxes on up to $12,000 in wages.

Third, your child can contribute up to $5,500 to either of the following:

1. **A tax-deductible IRA,** and deduct that amount from federal taxation. This is the best strategy to use if the child has more than $12,000 in W-2 wages and you want the child to have more tax-free money.
2. **A Roth IRA,** which is not tax-deductible, but the child can (a) remove the contributions (money put in) at any time, tax- and penalty-free, and (b) remove the earnings tax-free after age 59 1/2. This is the best strategy to use if the child has less than $12,000 in total W-2 wages and other earned income, because the child has no need for a tax deduction.

Make Use of the 0 Percent Tax Bracket

In the old days, you used this strategy with your college student. Today, this strategy does not work with the college student, because the kiddie tax now applies to students up to age 24. But this strategy is a good one, so ask yourself this question: Do I give money to my parents or other loved ones to make their lives more comfortable? If the answer is yes, is your loved one in the 0 percent capital gains tax bracket? The 0 percent capital gains tax bracket applies to a single person with less than $37,650 in taxable income and to a married couple with less than $75,300 in taxable income. If the parent or other loved one is in the zero capital gains tax bracket, you can get extra bang for your buck by giving this person appreciated stock rather than cash.

IMPORTANT DATES TO REMEMBER

W-9 and Employee Address List (for 1099s & W-2s) due to BKM by 1/10/19

Health/Dental Insurance Paid in 2018 (for W-2s) due to BKM by 1/10/19

2018 Estimated Tax Payment #4 due to IRS by 1/15/19

Engagement Letters due to SBG by 1/31/19

W-2's to recipient and Social Security Administration by 1/31/19

1099s to recipient and IRS by 1/31/19

Monthly Payment option for SBG due 2/1/19

Tax return Prepay option due to SBG by 2/8/19

Recommended Resources

Feeling stressed about keeping track of all your records?
Here are a few apps we love.

Manage your receipts
SmartVault - free for SBG & BKM Clients www.smartvault.com
Send and receive files the smart way. Emails are not secure!
The Neat Company www.neat.com
Expensify www.expensify.com

Track your mileage
MileIQ www.mileiq.com

Video conference or screen share with your SBG or BKM staff member
Zoom www.zoom.us

SBG CONSULTING & BOOKKEEPING MATTERS CORE VALUES/BELIEFS

Integrity – Embracing what is right even when no one is looking, by choosing to be accountable

Client experience – Going the extra mile to build valuable relationships

Teamwork – Proactively provide and request support, knowledge, tasks and ideas from my teammates

Resourcefulness– Choose communication, creativity, determination, passion, decisiveness, honesty, sincerity, and love

Enjoyment of work – Engaged intellectually and emotionally in my work and celebrate with my team

Your SBG Consulting and Bookkeeping Matters team is always there to help you!

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