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NEWSLETTER NEWSLETTER NEWSLETTER

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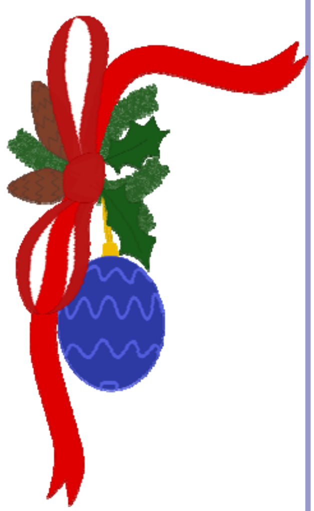
Strand Boyce O'Shaughnessy, CPAs, Inc.

Inside this issue:



Tax Reform: What Does It Mean to Me?

Will it be a happy new year once tax reform is in place? It will depend on your taxable income and what tax provisions are added or taken away. The House and Senate bills are being "reconciled" as we go to press. The apparent goal is to get a reconciled tax bill ready for a vote by Christmas and then be signed into law. Although most of the provisions are effective for tax years beginning in 2018, there are steps that individuals need to consider in 2017 to take advantage of deductions that may well disappear after 2017.

It is quite likely that the final bill, if it gets that far, will eliminate the deduction for state and local income taxes and sales taxes. State and local property tax deductions will be limited to $10,000. Miscellaneous itemized deductions will be eliminated (this includes expenses like unreimbursed employee business expenses, and personal tax planning expenses, income tax return preparation charges related to the non-business parts of your personal income tax return). It is not clear whether investment management fees will be allowed as a deduction or eliminated.

(As we go to press the Committee is making changes to the tax bill. The items above are still subject to change.)

What does this mean for you? Assuming a tax bill passes and has the aforementioned provisions, then: pay all state income tax that you will owe for 2017 this year. <u>Don't wait until the January 16 due date to pay the fourth quarter state estimated tax – pay it by December 31</u>. If we prepared a tax projection for you and determined you would owe tax next April, pay that tax by December 31. If you pay it next year, it won't be deductible.

If your annual real estate tax bill is more than $10,000 <u>it may make sense to pay the second installment, normally due April 10, by December 31</u>.

Without the state and local income tax deduction and a limited real estate tax deduction, some of you who have small (or no) mortgage interest would not be itemizing your deductions in 2018. Instead, you would claim the new standard deduction (about $24,000 for joint filers, and $12,000 for singles). That means your 2018 charitable contributions (which are an itemized deduction) would not reduce your 2018 taxable income and would not reduce your federal tax. <u>Consider making your 2018 charitable donations early, by December 31st, and claim the deduction in 2017</u>.

Bottom line: You may only have this one last opportunity to get a tax break for certain expenditures. Please check in with us if you want guidance on what may need to be done in your particular situation.

AirBnB, VRBO, Home Away - How do I report this income?

As the "sharing economy" continues to grow, more people are capitalizing on the opportunity to rent their vacation home, other property, or even an extra room in their house. What's important to know is that short-term rentals come with some unexpected tax implications.

What's Taxable?

You'd think this was an easy answer, but some assessments about your rental, personal use, and additional services need to be made before tax treatment can be determined.

Less than 15 Day Rule

If you rent real estate that you also use personally (such as your primary home or a vacation home) for less than 15 days, then you are not required to report the income (or the associated expenses) on your tax return. However, if you rent your property for 15 days or more, you will need to report this income on your tax return. What tax schedule to use and how to handle the associated expenses is determined by some additional factors.

Vacation Home?

One factor in determining the tax reporting of the rental of your residence or vacation home depends on the average number of days each renter stays in your home. Is the average rental period seven days or less? 30 days or less? Do you provide extraordinary personal services; such as daily maid service (like in a hotel)?

Next, one needs to determine how many days the property is used for rental purposes as opposed to personal purposes. If you rented the property for more than 14 days, you need to determine if your personal use exceeds the greater of 14 days or 10% of the total days rented.

Personal days are defined as days the property is used by the owner or members of the family. A personal day is also a day that the property is rented at less than fair market value rent.

Rental Activity or Business?

It is important to have your tax advisor—that's us! - help you determine if the activity is considered a rental activity or a business activity. This determination affects both the taxation of income and the treatment of losses. You should discuss average length of stay, services provided, management of the property, and whether you are a real estate professional. These and other factors will affect the tax treatment. If it is determined to be a rental activity, the rental may be subject to Passive Activity Loss rules. If it's a business activity, the rental may be subject to Self-Employment Tax. There is a lot of information and mis-information available on the internet about how your AirBnB, VRBO, Home Away, and other rental income should be reported. Give us a call. We can help you sort through the information and to be sure your tax schedules are properly reported.

Don't Forget Sales & Lodging Taxes

Short-term rental property owners may be required to collect and remit sales and lodging taxes on the gross rental collected from guests—the same taxes a hotel is required to collect. "Short-term" in most states is less than 30 days. There are a handful of states that use a 90 day definition, and a few such as Hawaii and Florida, that define short-term as up to six months. These taxes range between 10% - 15% of the gross rental income collected. Sales and lodging taxes can build into a large hidden liability for unsuspecting hosts renting their homes. These taxes are in addition to income taxes.

Health Reimbursement Arrangements

What is an HRA?

An HRA is a Health Reimbursement Arrangement—more importantly, we want to discuss a Qualified Small Employer Health Reimbursement Arrangement (QSEHRA). This is a special concession made to relax a piece of the Affordable Care Act (ACA) requirements regarding reimbursements of health insurance premiums to employees. A Qualified Small Employer Health Reimbursement Arrangement allows small employers, who do not offer group health insurance to their employees, to provide money to their employees on a tax-free basis. The money can be used to pay for individual health insurance policies and/or to reimburse employees for certain medical expenses.

Background

Prior to this new guidance, the Internal Revenue Service prohibited employers from offering an HRA to reimburse employees for premiums paid for individual health insurance coverage. Now we can use a QSEHRA!

Who is Eligible?

Generally, an employer must have fewer than 50 employees in order to offer a QSEHRA. There are some technical calculations about who counts towards being one of those 50 employees, so if you are close to 50, we should discuss this. Additionally, the employer cannot offer any other group health plan to its employees. The employer must offer the QSEHRA to all employees except:

- Employees with fewer than 90 days of service
- Employees under the age of 25
- Part-time and seasonal employees
- Union employees
- Employees who are non-resident aliens with no U.S. source income

A QSEHRA is funded solely by the employer. Employees may not make pre-tax contributions to a QSEHRA.

Compliance

There are dollar limits to the reimbursements, and there are certain requirements for notices to employees discussing reimbursement amounts, disclosure by the employee to the Insurance Exchange, and a disclosure that the program is not a substitute for the individual mandate. (The notices need to be provided 90 days before the beginning of the year.)

Do you want to convert some of your regular IRA to a Roth-IRA this year? You have to complete the transfer of funds by December 31. There is no exception or extension! Unlike making a contribution to an IRA, which can be done in the following year by the original due date of your tax return, converting to a Roth-IRA has to be done by the end of this year to be considered a 2017 conversion.

Are you closing out a bank account, brokerage account or credit card account? Be sure to download all statements you may ever need *before* closing the account. You will lose online access to your account once it is closed.

Deadline Reminder!

The deadline for filing W-2s and 1099-MISCs with the IRS has been accelerated to January 31. Previously, businesses had until the end of February to file their documents with the IRS. The January 31 deadline has long applied to employers furnishing W-2s to their employees and businesses furnishing 1099-MISCs to vendors; that date remains unchanged.

New Electronic Filing Requirement.

Effective January 1, 2018 all California employers must submit their quarterly and annual payroll tax returns electronically. Paper submissions will be subject to penalties. If it is not possible to submit your payroll tax returns electronically a waiver can be requested.

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As always, we appreciate your referrals. Your confidence in us is greatly valued.

We say it each year, and it is still true today: We enjoy what we do and we enjoy working with you!

Strand Boyce O'Shaughnessy, CPAs, Inc.

3480 Buskirk Avenue, Suite 215
Pleasant Hill, CA 94523

Phone: 925-934-1191
Fax: 925-930-0984

TO:

Check out our Website!

www.strandboycecpas.com

We appreciate the confidence you have in us. It is not taken for granted.

We will be closed on December 25 and on January 1.

The IRS is allowing taxpayers to donate their vacation, sick, or paid time off to qualified organizations helping in the relief efforts for victims of Hurricanes Harvey and Irma and the California wildfires in Sonoma and Napa counties.

2018 Limits

401K plans: $18,500 plus another $6,000 if you are 50 years old or older.

IRAs: $5,500 plus another $1,000 if you are 50 years old or older.

Health Savings Accounts: $3,450 for a single plan, $6,900 for a family plan, plus another $1,000 for each spouse who is 55 years old or older.

Funding deadlines:

Keep in mind that you must fund your 2017 IRA and Health Savings Account (HSA) by 4/15/2018 if you want to claim the contribution as being for the 2017 tax year. Even if your personal tax return filing due date is extended, no extension is allowed for funding these plans.

QSEHRAs (See page 3): The maximum amount of payments and reimbursements cannot exceed $5,050 for self-only coverage and $10,250 for family coverage.

Qualified Transportation Fringe Benefits: The monthly limit on the amount that may be excluded from an employee's income for the qualified parking benefit is $260, and the combined monthly limit for transit passes and vanpooling is $260. (This benefit may be eliminated in the new Tax Reform Bill.)