

HLW Tax Newsletter

October 2018

HLW Tax & Financial Services will be celebrating our 10th year in business! We are so grateful to all of our wonderful clients. You have made our business possible! To celebrate and show our appreciation, in January we will draw 10 winners to receive a discount off their 2018 tax return. You will receive 1 entry in the drawing for each year you have been a client with us. Thank you for helping us succeed!

Remember to watch for your tax organizers in January 2019! This upcoming year, we will be sending out all tax organizers by email, unless you specifically requested it by mail.

Avoid a Tax Surprise!

Taxpayers should take a few minutes to check their withholding to avoid surprises later! The Tax Cuts and Jobs Act passed in 2017 will affect 2018 tax returns. Checking and adjusting withholding now can prevent an unexpected tax bill and penalties next year. Go to [IRS.GOV](https://www.irs.gov) where there are a variety of free tools to assist you.

Recap of Some New Tax Laws for 2018

- The medical expense deductions AGI threshold will remain 7.5% through 2018.
- The new law limits the amount of taxes you can deduct on the schedule A to a maximum of \$10,000 for all taxes, property, DMV, state taxes etc.
- You can still deduct mortgage interest paid for home purchases on a first and second home. The aggregate amount of loans for one or two homes cannot exceed \$750,000.
- Home equity debt is only deductible to the extent that the debt was used to purchase or improve the home.
- Alimony agreements amended or entered into after 2018 are no longer taxable to the recipient and not deductible by the payer.
- The individual mandate for health insurance is still in place for 2018. There is an exemption from the penalty for people that the coverage is not affordable. This means that the minimum net cost of premiums is more than 8.16% of household income. The mandate is eliminated as of 2019.
- The new child tax credit was increased to \$2,000 per child and the phase out does not begin until \$200k AGI single and \$400k AGI MFJ.
- C-Corporation tax rate is now a flat 21%.
- The new law provides a deduction for pass-through and sole proprietorship businesses of up to 20% of their QBI (another test applies and it is the lesser of 2 calculations). Service businesses are subject to the previous mentioned calculations, but could be limited or excluded from the credit based on income.

CA Supreme Court Rules on “ABC Test” for Independent Contractors

On April 30, 2018 the CA Supreme Court clarified the standard for determining whether workers in CA should be classified as employees or as independent contractors. The Court held that there is a presumption that individuals are employees and that an entity classifying an individual as an independent contractor has the burden of establishing that such a classification is correct under the “ABC Test”

In order for the worker to qualify as an independent contractor, the hiring entity must establish each of the following three factors known as the “ABC Test”

- A** - The worker is free from the control and direction of the hiring entity in connection with the performance of the work, both under the contract for the performance of the work **and**;
- B** - The worker performs work that is outside the usual course of the hiring entity’s business; **and**;
- C** - The worker is customarily engaged in an independently established trade, occupation or business of the same nature as the work performed.

20% Deduction for Qualified Business Income for Pass-Thru Entities

A non-corporate taxpayer, including a trust or estate, who has qualified business income (QBI) from a partnership, S corporation, or sole proprietorship might be allowed to deduct an amount equal to the lesser of:

- 1) 20% of net business income, or
- 2) 20% of taxable income

The 20% QBI deduction is not available to an employee or specified service businesses in the fields of health, law, accounting, actuarial science, performing arts, consulting, athletics, financial services, brokerage services, any trade or business which involves investing and investment management, trading or dealing in securities, partnership interests or commodities and any trade or business where the principal asset of such trade or business is the reputation or skill of one or more of its employees or owners.

The “service business” limitation does not apply to a taxpayer with less than \$157,500 of taxable income (\$315,000 for MFJ) The limit is phased in for individuals with taxable income exceeding these thresholds, over the next \$50,000/\$100,000 MFJ of taxable income.

There are many other factors not listed here that could limit the deduction, such as having multiple businesses, etc.

We value your opinion and would love to hear from you. Please review us on Yelp, Google and FaceBook and leave us your feedback!

