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CLIENT'S tax & financial UPDATE
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A tax, business, and financial planning newsletter for our clients and friends

The New Tax Law

The Tax Cuts and Jobs Act was signed into law by President Trump on December 22, 2017. The new law dramatically changes many parts of the Internal Revenue Code. The new tax law will benefit business owners both big and small and affect individual taxpayers. The effective date of most changes is January 1, 2018 and the changes affecting individuals expire after 2025.

The new tax brackets and rates are:

Single taxpayers

Taxable income over	But not over	Is taxed at
$0	$9,525	10%
$9,525	$38,700	12%
$38,700	$82,500	22%
$82,500	$157,500	24%
$157,500	$200,000	32%
$200,000	$500,000	35%
$500,000		37%

Heads of household

Taxable income over	But not over	Is taxed at
$0	$13,600	10%
$13,600	$51,800	12%
$51,800	$82,500	22%
$82,500	$157,500	24%
$157,500	$200,000	32%
$200,000	$500,000	35%
$500,000		37%

Married taxpayers filing joint returns and surviving spouses

Taxable income over	But not over	Is taxed at
$0	$19,050	10%
$19,050	$77,400	12%
$77,400	$165,000	22%
$165,000	$315,000	24%
$315,000	$400,000	32%
$400,000	$600,000	35%
$600,000		37%

Married taxpayers filing separately

Taxable income over	But not over	Is taxed at
$0	$9,525	10%
$9,525	$38,700	12%
$38,700	$82,500	22%
$82,500	$157,500	24%
$157,500	$200,000	32%
$200,000	$300,000	35%
$300,000		37%

Standard deduction

The standard deduction is increased to $24,000 for married taxpayers filing joint, $18,000 for heads of household filers, and $12,000 for all other individuals. Under the old law the rates are $13,000 for joint filers, $9,550 for heads of households, and $6,500 for all others.

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*tax*POINTS

Loophole: Disabled individuals can deduct medical expenses related to their disabilities to the extent that they exceed 7.5% of adjusted gross income (AGI). **Examples:** Wheelchairs, hearing aids, guide dogs, and artificial limbs.

Loophole: The cost of home improvements that make life easier for a disabled taxpayer is deductible as a medical expense. This is subject to the 7.5% AGI limit and to the extent that the cost doesn't exceed the increase in value they add to the home. **Example:** The cost of constructing a ramp for a wheelchair bound taxpayer can be included as a medical expense. **How the limitation works:** Say you install a special air-conditioning and filtering system that costs $20,000 and increases the value of your home by $5,000. You can deduct the difference of $15,000 as a medical expense.

Loophole: You can deduct as a medical expense the cost of tuition and special schools designed to relieve physical disabilities. **Examples:** Schools that teach sign language, lip reading or Braille. A disabled person can also deduct the cost of lodging and meals when he/she has to travel to the training.

How To Cut Overhead Costs For A Better Bottom Line - Part Two

As we noted in our last issue, the best way to prevent overhead costs from eating into profits and causing serious cash flow problems is a healthy dose of preventative medicine. A regular monthly review of overhead costs will help you pinpoint problems before they get out of hand. Assigning responsibility for each area that generates overhead costs to one individual will let you meet with the person in charge of a problem area to discuss the reasons why overhead costs are increasing and determine what can be done to bring them under control.

Personnel management

Wages and salaries are a major portion of monthly overhead. If each payroll dollar doesn't bring an adequate return, overhead skyrockets. Personnel management is often the problem because payroll leaks are actually time leaks. Improper scheduling, for example, can cause slack periods during which employees are not producing but are still being paid. Casual attitudes about starting and quitting times, coffee breaks, lunch hours, and personal time off can result in shrunken work days and weeks.

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Smarter Selling

Listen before you leap

Control your enthusiasm for what you're selling until your prospective customer has described his problems to you. If your initial presentation is too forceful, the customer can interpret it as "hard sell" with no consideration for the customer's needs.

A better approach is to listen carefully for what the customer really needs and then use your enthusiasm to show how your product or service can satisfy those needs. Your message will then come across as a desire to help the customer and you'll be seen as someone the customer wants to work with.

Strongest sales approach

Always present your product, your service and your company as a contributor to the customer's bottom line. Your objective should be to position yourself as the customer's partner, not just another vendor of goods or services. You'll sell much more effectively if you are perceived as a profit booster rather than a cost contributor.

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How To Cut Overhead Costs For A Better Bottom Line - Part Two (continued)

Frequently inflated personnel costs are simply the result of too little work for too many employees. As one widely quoted business consultant put it, "always hire too few employees".

Security

Losses from employee dishonesty are another form of hidden costs. Security control begins on paper: a written record of all cash and inventory not only shows what is supposed to be where, but it also is a deterrent to dishonest employees. However, the most effective curb on employee dishonesty occurs at the hiring level when all references should be checked out as a condition of employment. Failure to check references is the most common security lapse in the business world.

Employee advances and loans

In many companies, there is a healthy amount of cash floating around among employees because of poor controls over advances for travel and entertainment expenses. So-called "loans" from petty cash and personal withdrawals by the owner (sometimes unrecorded) can also add up to a substantial sum.

Proper record keeping can eliminate these cash drains. Records should show how much is outstanding and for how long. A review of the company's policies might be in order. For example, some companies won't advance travel and entertainment expenses until the previous month's expenditures have been documented.

Insurance

Insurance needs can change over time and a regular review of coverage and costs can often uncover potential savings. Comparison shopping, for example, might uncover a more efficient insurance package from another agent. Or the discovery of record keeping errors might result in a premium reduction.

If cash is scarce, insurance premiums can be paid on a monthly schedule rather than in quarterly or semiannual installments, thus making cash available for other purposes.

Special customer services

Building goodwill by offering special services often carries hidden costs. For example, it costs money to warehouse merchandise for customers, or to produce special colors, or to deliver beyond normal limits. When a business calculates what these extra services actually cost - both in time and material - it may become apparent that an extra charge should be made for some of these services.

How To Compare Taxable Yields With Tax-Exempt Yields

Here's a simple chart to help you determine whether you should put your money in a taxable or a non-taxable investment:

TAX-EXEMPT YIELD	TAXABLE EQUIVALENT		
	AT 22% TAX RATE	AT 32% TAX RATE	AT 37% TAX RATE
3%	3.85%	4.41%	4.76%
4%	5.13%	5.88%	6.35%
5%	6.41%	7.35%	7.94%
6%	7.69%	8.82%	9.52%

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The New Tax Law (continued)

As with the old law the additional standard deduction for the elderly and the blind is retained (married taxpayers $1,300; single taxpayers $1,600).

Personal exemptions

The new law repealed the deduction for personal exemptions through 2025.

Pass-through businesses income deductions

After 2017 and before 2026 individuals will be allowed to deduct 20% of "qualified business income" from an S corporation, partnership, sole proprietorships, and other pass-through businesses. The deduction is limited based upon the W-2 wages above a threshold amount of taxable income. No deduction is allowed for specified service trades or businesses such as accounting, law, financial services where the principal asset of the business is the reputation or skill of at least one of its employees.

Child tax credit

The child tax credit is temporarily increased from $1,000 to $2,000 per qualifying child. The maximum refundable amount is $1,400. The law created a new $500 nonrefundable credit for dependents who are qualifying children. The credits begins to be phaseout at $400,000 of adjusted gross income for joint filers and $200,000 for all others.

Mortgage interest deduction

The new law limits the mortgage interest deduction to interest on $750,000 of acquisition indebtedness ($375,000 for married taxpayers filing separately). The old law was limited to $1,000,000.

For taxpayers who incurred acquisition indebtedness before December 15, 2017, the new law allows taxpayers to continue to keep the old limit of $1,000,000 ($500,000 for married taxpayers filing separately). Taxpayers with second home can continue to deduct mortgage interest, but within the new limits.

Home equity loans

The interest deduction on home equity loans has been repealed through 2025.

Education

Interest deduction on student loans is retained. The American Opportunity Tax Credit is not overhauled. The exclusion for interest on U.S. Series EE savings bonds used for qualified education purposes is retained. Section 529 plans are modified to allow them to distribute no more than $10,000 for tuition expenses during the tax year at either an elementary or secondary school. This limitation is applied per student.

Alimony

The new law repeals the deduction for payment of alimony and the inclusion in income to the payee spouse. To give taxpayers time to adjust to this new law the effective date applies to divorce or separation agreements executed after December 31, 2018.

Estate, gift, and generation-skipping transfer tax

The estate and gift tax exemptions for estates of individuals dying and gifts made after December 31, 2017 and before January 1, 2026 are doubled.

State and local taxes

As of January 1, 2018 Individuals are allowed to deduct up to $10,000 ($5,000 for married taxpayers filing separately) in state and local income or property taxes.

Smarter Business Thinking

Delegation danger

It's a big mistake to delegate only the tasks you don't like to do. It's bad for employee morale, and you get yourself into poor management habits. Instead, delegate interesting duties as well. That makes employees' jobs more interesting and improves staff moral. And if you use the time you save to take on more important tasks, you'll find your own job will become more gratifying.

Shrewd negotiating trick

Silence is often golden. Sometimes the best response to an offer is to say nothing. When you don't react, the other party frequently takes your silence as a negative response and will make a better offer.