

Jamie Duman
Certified Public Accountant

Dear Business Clients:

It has been another eventful year, and I am looking forward to bringing you up to speed on all of the new changes in tax law. As most everyone knows, Congress passed the Tax Cuts and Jobs Act late last Fall, and it went into effect January 1, 2018. Suffice it to say, these new tax laws are going to have an effect on just about everyone's business taxes as well as individual income taxes. For businesses, the new tax laws are going to have more than a few changes.

To give you a sense of how your business will be impacted, I have outlined some of these changes below. For your convenience, I also provided a list of the documentation necessary for me to complete your return. **Don't forget:** please have all material to me by **March 4, 2019**.

Due to the complexities of the new tax laws, tax preparation fees will be increasing.

In addition, you will likely notice a few changes around the office. Sonnet has gone on to other endeavors—we will miss her and wish her luck! In her place, I am very happy to welcome Becky as our new front office assistant. Becky is doing an outstanding job and is excited to greet you in the coming tax season.

REMINDERS & TAX LAW CHANGES:

Meals and Entertainment

The IRS has provided new guidelines for the deduction of meals and entertainment: Meals for clients will continue to be 50% deductible, so long as they are not considered lavish. There will no longer be any deduction for entertainment. Holiday parties are still deductible in full, but office snacks and meals for the employer's convenience are limited to a deduction of 50% of the cost.

Depreciation

This is another one of the areas where there are significant tax law changes. Rather than going into the details, I would prefer we look at this for each separate tax return. Therefore, I will need a complete list of equipment purchased and/or disposed of during the year.

Forms 1099

Forms 1099 are due by January 31, 2019. If we prepare the forms for you, we need the information as soon as possible after year-end to insure timely filing. If you prepare the forms yourself, be sure to supply the recipient with their copy and submit the original documents to the Federal Government by the January 31st deadline. The penalty for not filing Forms 1099 is *\$250 per individual form*.

S Corporations—Shareholder Health Insurance

For 2018, the IRS will continue to impose penalties for noncompliance with health insurance reporting requirements. Therefore, proper reporting is essential. Prior to year-end, identify the health insurance premiums paid in 2018 relating to shareholders and dependents. If the S Corporation has paid the health insurance premiums directly, then no further action is required. However, if the S Corporation has not reimbursed the shareholder (i.e. shareholder has made the payments out of personal funds), then the S Corporation should issue a check to the shareholder by December 31, 2018.

The health insurance premiums paid on behalf of the shareholder must be reported on the shareholder's 2018 Form W-2. The health insurance premiums need to be included with gross income in Box 1 (Wages), Box 14 (Other)-labeled with code DD and Box 16 (State Wages).

As long as the S Corporation *pays or reimburses* health insurance premiums for the shareholder *and includes them in Box 1 of Form W-2*, then the shareholder qualifies for the self-employed health insurance deduction on the individual return.

If you use an outside payroll service, please provide the health insurance premiums paid for proper Form W-2 reporting. **It is critical the correct amount be reported on Form W-2.**

I have enclosed a worksheet to assist in gathering the necessary information on the health insurance premiums paid by the Company. Please complete the yellow worksheet and include it with the year-end information.

Personal Use of Business Vehicle

As always, commuting miles between a taxpayer's home and work location (and other personal miles) are nondeductible mileage. A deduction for business mileage will be taken at 54 and one-half cents per mile. For entity-owned vehicles, it is necessary to determine the portion of personal usage. In preparing the entity tax return, we will need to calculate the nondeductible personal auto use by the owners of the business. For personally-owned vehicles, reimburse the business-related mileage at 54 and one-half cents per mile.

As a reminder, document the ending odometer reading at December 31, 2018 for vehicles that have been used for personal and business purposes. *Please provide me the 2018 total mileage allocated between personal and business use.* In the event of an audit, the IRS will require mileage logs to support the business use.

Sales Tax Audit

In general, sales/use tax must be paid on any item purchased that is not re-sold, including office supplies, equipment, and any online or out-of-state purchases. Sales tax should be charged on any items sold (not labor, if separately stated on the invoice) except for those customers for whom you have a valid exemption certificate on file. Make sure that sales tax returns are filed in

all states in which you have an office, store, salesperson (or salespeople), or other presence. (Some states contend that attending a trade show establishes presence). As states continue to have budget deficits, this issue becomes extremely important.

TAX RETURN INFORMATION NEEDED:

At a *minimum*, the following supporting documentation should be submitted:

1. If the bank accounts have been reconciled, please provide a reconciliation to the book balances as of December 31, 2018. If the accounts have not been reconciled, please provide copies of **December 2018 bank statements** for **all** checking/savings accounts (i.e. if your bank statement has a mid-month cutoff, then please provide us with the January 2018 statement as well).
2. If there is a petty cash balance at December 31, 2018, please compare the cash amount on hand to the book balance. These amounts should be the same and need to be adjusted to actual.
3. If ending inventory exists at December 31, 2018, please provide a recap of your physical count taken at year-end.
4. Fixed asset additions purchased during 2018 (over \$2,500)—please provide copies of invoices supporting purchase price and date acquired. If the asset was financed, please provide the loan agreement.
5. Fixed asset disposals – please provide information on assets sold and/or abandoned during 2018.
6. Credit card statements **listing charges through December 31, 2018**. Depending on the statement cutoff date, this could be your January and/or February 2019 statements. Each credit card account should be reconciled to the book balance.
7. Statements reflecting the loan balance at December 31, 2018 (this may be the January 2019 statement). Loan balances may relate to equipment loans and lines of credits. If you receive a year-end summary reporting interest paid in 2018, please provide it. Also, please provide copies of any new and/or refinanced loan agreements that were entered into during 2018.
8. Year-end payroll reports including 2018 W-3 and W-2's. If you use an outside payroll service, please provide the last payroll report for the calendar year 2018.
9. Copies of 2018 Forms 1099 issued for the year.
10. Copies of contracts for new leases (i.e. property, vehicles of equipment) during 2018.

11. If applicable, please submit IRS Forms 1099 (Int., Misc., Cancellation of Debt, etc.) and any IRS correspondence your business may have received for 2018.
12. Documentation for any change of ownership for partners/shareholders, locations or number of stores.

After your 2018 accounting has been completed (i.e. 2018 activity entered and accounts reconciled), please create an Accountant's Copy or Backup of your QuickBooks file for our use.

If you use software other than QuickBooks, please print balance sheets as of December 31, 2018 and December 31, 2017, an income statement for the calendar year 2018, as well as an accounts receivable summary list and accounts payable summary list as of December 31, 2018.

This is a preliminary list; additional information may be requested during income tax preparation. Your cooperation in submitting this information on a timely basis would be most appreciated.

CUTOFF DATES FOR TIMELY COMPLETION OF ENTITY TAX RETURNS:

The initial federal filing due date for 2018 **C and S Corporate tax returns as well as Partnerships** is March 15, 2019. To ensure completion of your corporate return, **all** information must be received by our office **no later than March 4, 2019**.

The final extended federal filing date for 2018 **C and S Corporations and Partnership** tax returns is **September 15, 2019**.

Once our office receives all required information, tax returns are prepared on a first-in, first-out basis.

Thank you in advance for your assistance, and I look forward to working with you this year.

Sincerely,



Jamie Duman
Certified Public Accountant
Enrolled Agent

JD/jld