Lally&Co.
CPAs and Business Advisors

The Evergreen

Quarterly Journal for Clients & Friends

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This Issue:

The Evergreen. Always Growing.

Like the evergreen oak tree, Lally & Co. is always growing. With the support and loyalty of our clients and friends we have grown into a firm of 43 individuals serving clients in many diverse fields. Our growth gives us the ability to better serve our clients and provide effective solutions to their needs. If you have questions about your business or personal tax situation, please contact us. We welcome your call and are always looking for ways to better serve you.

Contact our office or visit our website for more information.

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Dear Clients and Friends,

As we are now a month and a half into the new year, many clients are asking how they can prepare for the 2017 tax filing season and the 2018 tax year. This newsletter discusses certain tax planning techniques and items to be aware of in the upcoming year.

As you read through *The Evergreen*, please do not hesitate to contact us if you have questions regarding an article or regarding your business or personal tax situation. We would be happy to hear from you! This and past issues of *The Evergreen* are available on our website at http://lallycpas.com/newsletters/.

New Year Brings New Tax Code

January 1, 2018 not only brings a new year, it brings a new federal Tax Code. The just-passed Tax Cuts and Jobs Act (the "Tax Act") makes sweeping changes to the nation's tax laws. Many of these changes take effect January 1. Everyone – especially individuals and business owners – needs to review their tax strategies for the new law. The changes are huge. However, many changes are temporary, especially for individuals.

Individuals

Individuals who work for wages will see the impact of the new law on their paychecks. The Tax Act sets forth seven individual tax rates: 10, 12, 22, 24, 32, 35, and 37 percent. Before 2018, these rates were 10, 15, 25, 28, 33, 35, and 39.6 percent. Because the tax rates have changed for 2018, federal income tax withholding also must change.

The IRS has issued new withholding tables in mid-January and employees have seen the impact of the new law as recently as their January 31, 2018 pay checks. The IRS also is expected to revise Form W-4. The new law repeals the deduction for personal exemptions after 2017.

Business entities

Perhaps nowhere else does the new law turn traditional tax planning on its head more than choice of business entity. Business owners need to immediately start thinking about how they want to structure their business in 2018 and beyond. For corporations, the Tax Act lowers the corporate tax rate to 21 percent effective January 1, 2018. This change is permanent.

The Tax Act also changes the tax treatment of pass-through businesses. These are partnerships, S corporations and others, which have been extremely popular choice of business entity in recent years. Very broadly, and the rules here are complex, the new law allows deductions for qualified business income of pass-throughs up to a certain percentage. This change is temporary and is scheduled to expire after 2025.

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Business owners need to reevaluate their choice of entity. The corporate form may be more attractive for some business owners. The pass-through form may be less attractive. Adding complexity to the mix is the new law's rules for certain businesses, such as law firms, and other professions. Please contact our office and we can discuss in detail these important changes.

Deductions and credits

Individuals who itemized deductions in past years may find that may no longer be the case under the new law. The Tax Act temporarily increases the standard deduction (up to $24,000 for married couples filing a joint return and $12,000 for single individuals). The new law also places limits on the deduction for state and local taxes. Individuals may deduct state and local income, sales, and property taxes up to $10,000. Gone are the days of an unlimited deduction for state and local taxes. This change is effective for 2018 and is scheduled to expire after 2025. Other popular deductions also are changed, including the medical expense deduction and the moving expense deduction.

Although the new law repeals the deduction for personal exemptions, it does enhance the child tax credit. The child tax credit increases from $1,000 to $2,000. The refundable portion also increases. The Tax Act also creates a $500 credit for non-child dependents. These enhancements are temporary, scheduled to expire after 2025.

Alternative Minimum Tax

The Tax Act does **not** repeal the alternative minimum tax (AMT) for individuals. Early on, AMT repeal seemed almost certain. However, Congress needed to keep the AMT because it raises significant revenues. The new law does increase the AMT exemption amounts.

What's not in the new law?

The Tax Act does not change the tax rates for capital gains and dividends. Also left unchanged are the many reporting and disclosure requirements under the Foreign Account Tax Compliance Act (FATCA).
The new law also does not repeal the Affordable Care Act's taxes. The net investment income (NII) tax and the additional Medicare tax are left unchanged. This is also true for the ACA's medical device tax, health insurance provider fee and excise tax on high-dollar health insurance plans. The new law also does not repeal the ACA's shared responsibility payment for employers (it does effectively repeal the individual shared responsibility requirement).

IRS Guidance

Keep in mind that the new law leaves a lot of the details to the Treasury Department and the IRS to flesh-out. Guidance from the IRS may take some time. As discussed, payroll guidance seems to be the first item on the agency's agenda. Guidance for the new tax treatment of pass-throughs also is likely to be high on its agenda.

IRS Launches 2018 Filing Season

The 2018 filing season for 2017 tax-year returns officially launched on January 27. On the other end of the filing season, taxpayers have two additional days to file their 2017 returns: the traditional April 15 filing deadline moves to April 17 this year. Some early filers, however, may find their refunds delayed if they are claiming the additional child tax credit (ACTC) and/or the earned income tax credit (EITC).

Unlike some past years, the IRS goes into the filing season without having to make too many changes to the Tax Code. The heavy haul will come this year, as the IRS implements the countless changes to the Tax Code in the *Tax Cuts and Jobs Act.* Former IRS Commissioner John Koskinen recently said that he worries the agency will have adequate resources – personnel and monetary – to push out the necessary guidance for the Tax Cuts and Jobs Act. "It's a challenge," Koskinen said.

The January 27 launch came just a few days before the mandatory January 31 deadline for employers to file certain information returns. Forms W-2 and W-3, electronic and paper, were due to the Social Security Administration by January 31. Forms 1099-MISC, box 7 (for non-employee compensation) were due to IRS by January 31.

Filing deadline

April 15 falls on a Sunday this year. As a result, the filing deadline moves to Monday, April 16. However, April 16 is a holiday – Emancipation Day – in the District of Columbia. This moves the filing deadline to Tuesday, April 17. Legal holidays in the District of Columbia affect the filing deadline not only in the District of Columbia but across the nation.

Refunds

Tax laws do not allow the IRS to issue immediate refunds to taxpayers claiming the ATC and/or EITC. The IRS predicted that refunds related to be the ACTC and/or EITC will be deposited in taxpayer accounts or on debit cards starting February 27, 2018, approximately one month after the launch of the filing season. Taxpayers will need to choose direct deposit, the IRS explained, to get refunds deposited as quickly as possible.
As in past years, the IRS predicts that nine out of 10 refunds will be issued in fewer than 21 days. The agency

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Firm Announcements

Amanda L. Lish joined our Firm in October 2017 and oversees our Processing Department

Zachary E. Miles, CPA married his fiancé Adrienne in October 2017

Lindsey M. Buchanan, CPA and her husband, Marcus, became first-time parents to baby girl, Elena Rose Buchanan in November 2017.

Steven B. Kustra and his wife, Mallory, became first-time parents to baby boy, Noah Albert Kustra in November 2017.

Lisa M. Wiegand, CPA and her husband, Eric, became second-time parents to baby girl, Leah Rose Wiegand in December 2017.

Matthew M. McClure joined our Tax Department as an Associate in December 2017

Alexis M. Petach joined our Tax Department as an Associate in December 2017

Brandon J. Niznik joined our Tax Department as an Associate in December 2017

Important Dates

February 28, 2018 – 2017 Form 1099 Due

March 15, 2018 – 2017 Partnership & S-Corp Tax Returns Due

April 16, 2018 – 2018 1st Quarter Estimated Tax Payments Due

April 17, 2018 – 2017 C-Corporation Tax Returns Due; 2017 Individual Tax Returns Due; 2017 Form 114 - FBAR Returns Due; and 2017 Form 1041 Trust Returns Due

reminded taxpayers that many financial institutions do not process payments on weekends or holidays. This can result in further delays.

Scams

The start of the filing season also brings an uptick in refund fraud. Criminals file fraudulent returns early in the filing season before taxpayers file their legitimate returns. The Treasury Inspector General for Tax Administration (TIGTA) recently cautioned taxpayers to be on "high alert" for identity theft and refund fraud.

IRS Instructs Employers to Use New Withholding Tables

Much-anticipated withholding tables for 2018 have been posted by the IRS. While the new withholding tables are designed to work with existing Forms W-4, the agency encouraged taxpayers to use its online withholding calculator to make adjustments if necessary. New Forms W-4, Employee's Withholding Allowance Certificate, will be released for 2019 withholding; withholding for 2018 will adapt to existing Forms W-4 already submitted by employees. Based upon the specific impact of the new tax law on their situations, some employees may wish to file a revised Form W-4 to supplement revisions to the withholding tables already being made by the IRS.

The IRS's online withholding calculator is being reprogramed for the *Tax Cuts and Jobs Act.* IRS officials told reporters in Washington, D.C that the updated withholding calculator is expected to be online in February. The guidance also sets the rates at 22 percent for optional flat-rate withholding on supplemental wages below $1 million, at 37 percent on supplemental wages on $1 million and above, and 24 percent for backup withholding.

Background

The amount withheld from an employee's wages is determined in part by the number of withholding exemptions and allowances the employee claims. For each exemption or allowance claimed, an amount equal to one personal exemption, prorated to the payroll period, is subtracted from the total amount of wages paid. This reduced amount, rather than the total wage amount, is subject to withholding.

A withholding table shows employers and payroll service providers how much federal tax to withhold from employee paychecks, given each employee's wages, marital status and the number of withholding allowances claimed. Employees provide their employers with Form W-4 so employers can withhold the correct amount of federal tax.

The *Tax Cuts and Jobs Act* overhauls the Tax Code. The new law lowers individual income tax rates, revises the child tax credit, repeals the personal exemption deduction, and makes countless other changes.

Withholding for 2018

For 2018, the amount of one withholding allowance on an annual basis increases to $4,150. The amount of one withholding allowance on an annual basis for 2017 was $4,050. For 2018, the withholding allowance amounts by payroll period are:

- Weekly: $79.80
- Biweekly: $159.60
- Semimonthly: $172.90
- Monthly: $345.80
- Quarterly: $1,037.50
- Semiannually: $2,075
- Daily or miscellaneous (each day of payroll period): $16

The IRS instructed employers and payroll service providers to start using

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Lally & Co., LLC Promotes David A. Buttignol to Partner

In July 2017, Lally & Co., LLC, announced the promotion of David A. Buttignol, CPA CGMA to Partner.

“David has demonstrated a high level of knowledge and client service in the Accounting & Auditing area, and we are very pleased to welcome him as our newest Partner,” said John M. Lally, Partner.

Mr. Buttignol joined Lally & Co., LLC in October 1999, and was promoted to Manager in February 2004, with primary responsibilities in the accounting and auditing services segment. He will continue to work in this area with Ed Gorski and their team.

Mr. Buttignol received an Accounting degree from Gannon University. He is a member of the Pennsylvania Institute of Certified Public Accountants, American Institute of Certified Public Accountants and is active in various community service organizations.

We would like to congratulate David and are excited about his promotion to Partner and his future with the Firm.

the new withholding tables as soon as possible, but no later than February 15, 2018. Until employers and payroll service providers implement the revised withholding tables, they should continue to use the 2017 tables, the IRS added.

Form W-4

Taxpayers will not need to complete new Forms W-4 immediately. "The new withholding tables are designed to minimize taxpayer burden as much as possible and will work with Forms W-4 that workers have already filed with their employers to claim withholding allowances," the IRS explained. Further, transition rules temporarily permit employees to claim exemption from withholding for 2018 by using 2017 Form W-4. The deadline to claim exemption from income tax withholding in either case has been extended to February 28, 2018.

In the meantime, taxpayers should check their withholding, the IRS recommended. "Taxpayers who itemize their deductions, couples with multiple jobs or individuals with more than one job are encouraged to review their situation," the IRS explained.

"The new withholding guidance, developed jointly by Treasury's Office of Tax Policy and the IRS, was constructed to work within the constraints of the existing payroll withholding system in order to deliver the benefits of the tax cuts as soon as possible, to as many Americans as possible, and with as little disruption as possible," Treasury Secretary Steven Mnuchin told reporters in Washington, D.C. "The withholding tables are designed to work with the Forms W-4 that workers have already filed with their employers. This will minimize burden on taxpayers and employers," he predicted.

Senate Finance Committee ranking member Ron Wyden, D-Oregon, has asked the Government Accountability Office (GAO) to review the new withholding tables and determine if the tables "would result in the systematic under-withholding of federal taxes from employee paychecks." Wyden and other Democrats in Congress have voiced concerns that the White House is "politically interfering with the development of the 2018 withholding tables."

Supplemental wages

An employee may receive, in addition to regular wage payments, supplemental wages. If supplemental wages are paid concurrently (for example, in a single payment) with regular wages, and the employer does not specify the amount of each, the supplemental wages are combined with the regular wages for the pay period for purposes of determining the proper withholding amount. If the supplemental wages are not paid concurrently with regular wages, or if they are paid concurrently but the employer specifies the amount of each, two different methods of calculating the amount of withholding on the supplemental wages are available. If supplemental wages exceed $1 million during the calendar year, the excess is subject to withholding at 37 percent, effective this year, the IRS explained.

Examples of supplemental wages include bonuses, commissions, overtime pay, wages paid under reimbursement or other expense allowance arrangements, dismissal pay, vacation pay, back pay, and nonqualified deferred compensation. Other types of supplemental wages include payments for unused accumulated leave and separate payments representing sick pay and regular wages.

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How Do I Calculate Bonus Depreciation Under the New Tax Law?

The Tax Cuts and Jobs Act increases bonus depreciation rate to 100 percent for property acquired and placed in service after September 27, 2017, and before January 1, 2023. The rate phases down thereafter. Used property, films, television shows, and theatrical productions are eligible for bonus depreciation. Property used by rate-regulated utilities, and property of certain motor vehicle, boat, and farm machinery retail and lease businesses that use floor financing indebtedness, are excluded from bonus depreciation.

Timing Details

The 50-percent bonus depreciation rate applicable before the new law took effect has been increased to 100 percent for qualified property acquired and placed in service after September 27, 2017, and before January 1, 2023. The 100-percent allowance continues for five years, after which it is then phased down by 20 percent per calendar year for property placed in service after 2022. In general, the bonus depreciation percentage rates are as follows:

- 100 percent for property placed in service after September 27, 2017, and before January 1, 2023;
- 80 percent for property placed in service after December 31, 2022, and before January 1, 2024;
- 60 percent for property placed in service after December 31, 2023, and before January 1, 2025;
- 40 percent for property placed in service after December 31, 2024, and before January 1, 2026;
- 20 percent for property placed in service after December 31, 2025, and before January 1, 2027;
- 0 percent (bonus expires) for property placed in service after December 31, 2026.

Property acquired before September 28, 2017

Property acquired before September 28, 2017, is subject to the 50-percent rate if placed in service in 2017, a 40-percent rate if placed in service in 2018, and a 30-percent rate if placed in service in 2019. Property acquired before September 28, 2017, and placed in service after 2019 is not eligible for bonus depreciation. However, in the case of longer production property (LPP) and noncommercial aircraft (NCA), each of these placed-in-service dates is extended one year. Thus, a 50 percent rate applies to LPP and NCA acquired before September 28, 2017 and placed in service in 2017 or 2018, a 40 percent rate applies if such property is placed in service in 2019, and a 30 percent rate applies if such property is placed in service in 2020. They continue to apply to property acquired before the September 28, 2017 cut-off date set by Congress.

How Do I Use Section 529 Plans for Elementary and Secondary School Tuition

The Tax Cuts and Jobs Act modifies Section 529 qualified tuition plans to allow the plans to distribute up to $10,000 in tuition expenses incurred during the tax year for designated beneficiaries enrolled at a public, private, or religious elementary or secondary school. Section 529 plans used to only be allowed for college tuition, up to full tuition amounts. That provision for college tuition remains the same.

Although contributions are not tax deductible for federal tax purposes, funds within a Section 529 plan can accumulate tax-free within the plan until they are distributed tax-free to the educational institution for the child-beneficiary. The new $10,000 limitation applies on a per-student, not per-account basis. As a result, if an individual is a designated beneficiary of multiple accounts, a maximum of $10,000 in distributions will be free of income tax, regardless of whether the funds are distributed from multiple accounts. Some state plans provide a limited deduction against state income taxes for contributions to Section 529 plans. They may also provide caps on contributions.

The expansion of Section 529 plans to cover elementary and secondary school education applies to distributions made after December 31, 2017. Since existing Section 529 set up for a child-beneficiary's college education may now be redirected earlier to primary and secondary tuition, parents, grandparents and other contributors will need to decide how best to manage each child's combined accounts: whether amounts needed to cover college tuition should accumulate tax-free until those years, or whether they should be used earlier. Generally, if contributions are limited either by a donor's financial resources or by state caps, use for college tuition will allow a greater amount to accumulate tax-free. If projected accumulated contributions can cover more than college tuition, then using remaining Section 529 balances for secondary and even elementary school may make sense.

These expanded rules are still young, however, with expected IRS regulations and other guidance overlaid onto the basic law under the Tax Cuts and Jobs Act sure to come. But although the tax-free growth benefits of any Section 529 plans have a long-term perspective, giving some thought to how these expanded Section 529 plans might be used in your family situation might start soon.

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Enhanced Secure Communications for Lally & Co. and Their Clients

Lally & Co, LLC would like to announce that we have enhanced our secure communication capabilities going into 2018 with the implementation of Citrix ShareFile and RightSignature. We want to provide the most confidential way to share sensitive information in an uncomplicated and timely manner.

Citrix ShareFile is a way for us to exchange files, via email, in a secure manner. The Citrix platform allows for secure communications without the need for you to download and install software on any platform (Windows, Mac, Android, and more). Its interface and help options makes it easy for you to navigate receiving attachments along with uploading data to us.

RightSignature is the easiest, fastest way to get documents signed online. RightSignature electronic signatures gives us the ability to obtain legally binding signatures on documents entirely online – more quickly and securely than executing paper documents such as engagement letters and e-file authorizations (Form 8879's).

Several years ago, the IRS issued an announcement outlining a process for accountants to allow their clients to sign e-file authorization forms online. RightSignature meets all the requirements set forth by the IRS.

The process is simple as we initiate RightSignature to email you a unique link to review and sign the document(s). The system automatically guides you through the document signing process. Using RightSignature does not require additional software to download or install, and can be accessed and executed from any computer or mobile device.
