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Client Information Bulletin

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Seven Steps for Tax Return Season

Preparing to file 2017 returns

One sure sign that spring is coming: It is time to prepare to file your annual tax return. You can alleviate some of the usual stress if you have your 2017 return professionally prepared, but you still have some work to do. Here are seven practical suggestions to help you spring into action:

1. Assemble tax documents. Undoubtedly, you have been inundated with numerous tax forms for the 2017 tax year, including W-2 forms and 1099s. Employers are required to send W-2s to employees by February 1, 2018. Similarly, investors will receive 1099s with the details of their investment activities. Instead of just dumping these in a pile on your tax return preparer's desk, review them first to ensure their accuracy. In particular, verify the cost basis used to determine the tax ramifications of your securities transactions.

2. Verify Social Security information. It is critical to provide correct Social Security numbers for all dependents, including any children who were born or adopted in 2017. You can claim an exemption of $4,050 for each dependent in addition to a $1,000 credit for qualified children, but exemptions for some high-income taxpayers are reduced under a special phaseout rule. Also, retirees may owe tax on Social Security benefits.

3. Organize financial statements. Having your bank and investment statements on hand will make it easier to trace the origin of funds and reasons for deposits or payments. For instance, the IRS might determine that a bank deposit constituted a tax-free gift rather than earned income. Similarly, brokerage statements might indicate a carryforward of a tax loss that can be used to offset capital gains realized in 2017.

4. Organize business records. The same advice applies to self-employed individuals and small-business owners who are often lax with their recordkeeping. Make sure that expenses can be substantiated through receipts and other documentation. **Remember:** Because the IRS pays close attention to travel and entertainment (T&E) expenses, including deductions for business use of vehicles, proper recordkeeping for T&E is critical.

5. Check IRA details. A taxpayer can contribute up to $5,500 to any combination of traditional and Roth IRAs ($6,500 if age 50 or older) for the 2017 tax year. Deductions for traditional IRAs are phased out for active participants (and spouses of active participants) in employer-sponsored retirement plans. Roth IRA contributions are nondeductible but generally lead to future tax-free payouts. **Note:** The

Inside

How to Be a Better Business Leader

IRS Bumps Up Retirement Plan Limits

Do You Have to File a Gift-tax Return?

Tricky Tax Rule for Itemized Deductions

Facts and Figures

deadline for IRA contributions for the 2017 tax year is April 17, 2018, with no extensions allowed.

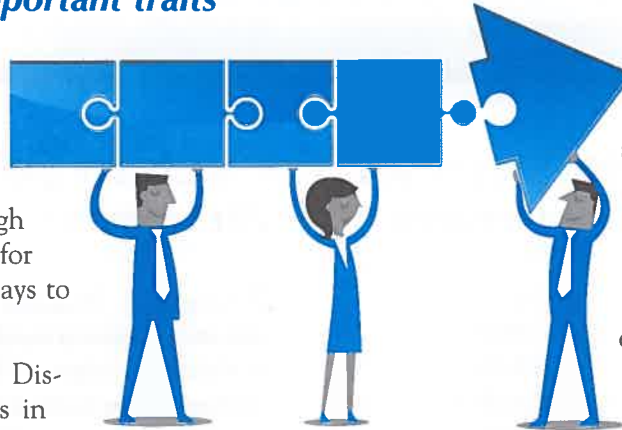
6. Audit-proof charity deductions. Notably, cash and cash-equivalent gifts to charities must be supported by records, including written acknowledgements for donations of $250 or more. For credit card charges, the appropriate statement will suffice. Stricter substantiation requirements apply to certain gifts of property (e.g., an independent appraisal is required for gifts valued at more than $5,000).

7. Schedule a meeting. The last item on the checklist is arranging an early meeting with your tax return preparer. This can head off potential problems and resolve any discrepancies. Then you can relax, knowing your return is in good hands.

How to Be a Better Business Leader

Exhibit more of these important traits

Are you an effective business leader? Do not automatically answer "yes" without thinking it through. After you take a closer look and apply high standards, you may find room for improvement. Here are several ways to polish your performance:



♦ **Become more organized.** Disorganization often leads to chaos in the office. If you are running amok, the business will not be able to operate smoothly. When you are organized, you can expect more productivity from everyone else.

♦ **Lead by example.** It might be what you do rather than what you say that really counts. For instance, you will have less impact if you are hardly ever around the office or always work behind closed doors. Get out front and show the staff what you can do. When it is called for, roll up your sleeves and do some of the grunt work yourself.

♦ **Show passion for the work.** How can you expect employees to be excited about coming to work if you are not? Inspire others to perform better through your own enthusiasm. That does not necessarily mean you always have to be a cheerleader, but you should demonstrate that you believe in the company's mission and objectives.

♦ **Delegate.** Don't try to do everything all the time. Concentrate on what is most important to the business, and assign other tasks and responsibilities. Let employees take ownership of and run with certain projects for which they are suited.

♦ **Get it in writing.** You cannot expect your staffers to remember all the instructions you shout out during the course of the day. When the situation calls for it, provide written guidelines they can refer to easily.

♦ **Practice what you preach.** If you say not to do something and then you personally do it, you are sending the wrong message to your staff. Stick to your own principles.

♦ **Communicate.** Of course, every manager knows the importance of communicating, but many merely pay lip service. Remember that employees are not mind readers. Also, part of being a good communicator is being a good listener. A leader should not do all the talking. Keeping people motivated means listening to them, asking them questions and understanding the issues.

♦ **Get to know your employees.** Find out what makes your employees tick. What are their lives like outside work? Keep track of events such as birthdays, marriages, births and graduations, and offer workers your best wishes. This will help strengthen your relationships.

If you are not exhibiting enough of these traits, you may not be as good a leader as you initially thought. Make a conscious effort to improve, and you should see your efforts reflected in a better work environment.

Give Us A Call!

*Do you have any questions or comments about **Client Information Bulletin** or your individual situation? Please do not hesitate to contact our office. We would be glad to serve you in any way we can.*

IRS Bumps Up Retirement Plan Limits

The IRS recently announced its annual cost-of-living adjustments for certain retirement plan limits for 2018. Any adjustments, as shown below, are relatively small.

	Limit for 2017	Limit for 2018
Maximum annual dollar benefit for a defined benefit plan	$215,000	$220,000
Maximum dollar limit on additions to a defined contribution plan	$54,000	$55,000
Maximum amount of compensation taken into account for a qualified retirement plan	$270,000	$275,000
Dollar limit for elective deferrals to a 401(k) plan	$18,000 ($24,000 if age 50 or older)	$18,500 ($24,500 if age 50 or older)
Dollar limit for contributions to a SIMPLE plan	$12,500	$12,500

Note: The annual limit for contributions to traditional and Roth IRAs remains at $5,500 ($6,500 if age 50 or older) for 2018. Phaseout levels for IRA and Roth contributions are adjusted slightly.

Do You Have to File a Gift-tax Return?

Protection under annual gift-tax exclusion

Did you make gifts to family members in 2017? As long as the gifts did not exceed the limits for the annual gift-tax exclusion, you should have no federal gift-tax worries. You do not even have to file a gift-tax return. And the annual gift-tax exclusion limit, which has not budged in five years, is finally going up in 2018.

However, depending on your situation, you may have to file a gift-tax return, Form 709, for 2017. In some cases, you might file a return even if you are not technically required to do so.

Background: Under the annual gift-tax exclusion, gifts up to a specified limit are completely exempt from the gift tax and don't erode any of the unified estate- and gift-tax exemption. The annual gift-tax exclusion for 2017 is $14,000 per recipient. Unlike most other inflation-based adjustments, the exclusion increases only in $1,000 increments. But the IRS recently announced that it is raising the exclusion to $15,000 for 2018. (It was last increased in 2013.)

For instance, if in 2017 you gave five family members $14,000 each, for a total of $70,000, you would owe zero gift tax. What's more, the exclusion is doubled to $28,000 per recipient ($30,000 in 2018) if your spouse consents to join in the gift. However, in the case of this "split gift," you must file a gift-tax return (unless you reside in a community property state).

When your gifts exceed the annual gift-tax exclusion amount, the unified estate- and gift-tax exemption, which applies to both lifetime gifts and amounts in your taxable estate, can pick up the slack. However, this erodes the exemption that can subsequently be used to shelter your assets from federal estate tax. This exemption effectively shelters $5.49 million from tax in 2017 and will increase to $5.6 million in 2018.

If you are required to file a gift-tax return, it is generally due by April 15 of the following tax year, just like your federal income tax return. For gifts, including split gifts, above the exclusion in 2017, the deadline for the gift-tax return is April 17, 2018. If you apply for an extension for filing your federal income tax return, the extension applies to your gift-tax return. Thus, you may be able to postpone filing until October 15, 2018.

Note that you might file a gift-tax return, even if you are not required to, for purposes of establishing the value of assets with the IRS. This may also provide a measure of audit protection. The IRS frequently audits estates if it suspects that assets have been undervalued. By filing a gift-tax return in which you honestly disclose the value of the gifts, a safe-harbor rule prohibits audits after three years have passed. But this safe-harbor rule does not apply in the event of fraud or inadequate disclosure.

This is not a do-it-yourself proposition. Rely on your professional tax advisers to avoid any dire tax consequences.

Tricky Tax Rule for Itemized Deductions

Phaseout may affect 2017 returns

Can you deduct the full amount of your itemized deductions on your 2017 tax return? Under current law, deductions are reduced for certain upper-income taxpayers under the "Pease rule," named for the congressman who initially introduced the provision. This little-known rule may catch taxpayers with rising incomes by surprise.

Background: Most itemized deductions are reduced if your adjusted gross income (AGI) exceeds an annual dollar threshold. This provision was initially included in the Omnibus Budget Reconciliation Act of 1990 before it was gradually phased out in the early 2000s. But the Pease rule was reinstated in 2013.

Note that the Pease rule does not apply to all itemized deductions, although several "big-ticket" items are on the list. This includes charitable donations, mortgage interest, state and local income taxes, property taxes and miscellaneous expenses.

Conversely, the Pease rule does not cover deductions for medical expenses, investment interest, casualty and theft, or gambling losses, but these other deductions already have built-in limits. For instance, medical expense deductions are generally limited to the excess above 10% of your AGI on your 2017 return. A similar 10%-of-AGI floor applies to casualty and theft losses.

For 2017 returns, the reduction is equal to 3% of the excess above $261,500 for single filers and $313,800 for joint filers. (These amounts are indexed for inflation.)

However, in no case can the reduction be greater than 80% of your total deductions. This limit affects only the wealthiest taxpayers.

Example: Say that you exceed the AGI threshold by $200,000 and have $50,000 in annual deductions for charitable gifts, mortgage interest, and state and local taxes. As a result, the reduction is equal to 3% of the $200,000 excess, or $6,000. So your itemized deductions of $50,000 are scaled back to $44,000.

The Pease rule does not figure in the alternative minimum tax (AMT) calculation for individual taxpayers. But certain itemized deductions—including mortgage interest and state and local income taxes—are already disallowed under the AMT.

Another comparable tax law provision phases out the tax benefit of personal exemptions for high-income taxpayers at the same indexed thresholds. Obtain more details from your tax advisers.

Update: This article discusses the rules for itemized deductions claimed on 2017 returns. If proposed tax reform changes are enacted, it is likely that they would be effective for 2018. Upcoming issues of this publication will focus on any significant developments.

Facts and Figures

Timely points of particular interest

➡**Tax Home**—As a general rule, you can deduct your travel expenses while you are away from your "tax home" on business. But that's not necessarily where you reside most of the time. **New case:** The Tax Court has ruled that a self-employed taxpayer's tax home was in Las Vegas. He did most of his work from his Las Vegas home even though he regularly went to Washington, D.C., on business and rented an apartment there.

➡**Break Time**—Are businesses required to allow workers to "take a break" during the day? Although federal law does not include any specific mandates for meal and rest breaks, employers must pay employees if lunch breaks last less than 30 minutes or employees work through their breaks. However, the vast majority of states have laws related to meal and rest breaks. Find out the applicable rules for your state.

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