CRAFT, NOBLE & COMPANY

Welcome to Craft, Noble and Company's e-news update. We have survived another tax season and are ready to get you set for next tax season and beyond.

Here's the most current news for you along with some information on tax reform and how it will change your return next year. If you would prefer to receive a print copy of each quarterly e-newsletter, please call our office to place that request.

Be sure to follow us on social media for regular updates on changes in tax law, accounting concepts, firm news, and some fun. We are on Facebook, Twitter, and LinkedIn so be sure to check us out and stay connected even outside of tax season.

Likewise, if you know a friend or colleague who might be interested in receiving this e-newsletter, just click the "Forward to a Friend" button. Privacy and confidentiality is a hallmark of our business, so you can be assured your name or address will not be shared with anyone.

Upcoming Tax Deadlines

May 15th- Filing deadline for 2017 tax returns for non-profit organizations on a calendar year.

Payroll Tax Deposits- Employers must make their deposits for the Form 941 payroll taxes (federal income tax withheld and the employee and employers share of the social security taxes). These deposits should be made either monthly or semiweekly depending on your deposit schedule. Exceptions apply if you owe $100,000 or more on any day during the deposit period, if you owe $2,500 or less for the calendar quarter, or if you estimated annual liability is $1,000 or less.

> **Monthly deposits**- These deposits are required to be paid within a calendar month by the fifteenth of the following month.
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> **Semiweekly deposits**- These deposits are required to be paid on Wednesdays or Fridays, depending on when wages are paid.

For any questions you may have on these deadlines, contact our office.

Review your Paycheck Withholding

With the tax reform and the new withholding tables now is a good time to review your W-4 on file with your employer. The new W-4 will get your withholding more in line with your expected income tax return for 2018. Having too little withheld can lead to an unexpected tax bill, while having more withheld will decrease your paychecks but benefit you at tax time.

You can update your W-4 at any time during the year.

Update on the Spoofing Scam

Thanks to the help of our outside IT consultants we have remedied the issue with the spoofing emails. We apologize for those of your impacted. We also want to let you know that no confidential information was at risk with this scam. All confidential client information is stored on a separate system and is protected by Thomson Reuters.

IRS “Dirty Dozen” Tax Scams

Every year the IRS releases its "Dirty Dozen" list of the year's most prevalent tax scams. They include ploys to steal personal information, talk people out of money, or engage in questionable tax activity.

Here are some of the top scams:

- **Phishing** - Fake emails or websites claiming to represent the IRS, for the purpose of stealing personal information. The IRS will never try to contact you via email about a bill or refund.
- **Phone scams** - Scammers impersonating IRS agents over the phone. These impersonators may threaten you with arrest if you don't make immediate payment for fake tax bills. Don't fall for it - the real IRS makes contact via a letter, and never threatens or demands immediate payment.
- **Identity theft** - Using a stolen Social Security number to file a fraudulent return and claim a refund. The IRS said it is making great progress on reducing this scam as identity theft reports are down 40 percent from a year ago.
- **Fake charities** - Some fraudsters use the mask of charitable activity to get you to donate funds to fake organizations. Only donate to legitimate charities, which are listed in the IRS database.
- **Inflated refund claims** - Many taxpayers are wooed by tax-refund services offering payouts that seem too good to be true. Cheap tax-preparation services that promise unrealistic refunds are illegal and often get taxpayers in trouble.
- **Padded deductions** - The IRS is focusing on identifying tax returns that try to reduce tax by overstating deductions such as charitable deductions or business expenses.
- **Falsifying income to claim credits** - Improper use of the Earned Income Tax Credit (EITC), meant for eligible low-income taxpayers. The IRS has been cracking down on EITC fraud in recent years.
- **Abusive tax shelters** - Some fraudsters peddle complex tax avoidance schemes known as tax shelters that they portray as legal tax strategies. Make sure you get an independent opinion on any complex tax schemes.
- **Frivolous tax arguments** - Frivolous arguments to avoid paying taxes (for example, arguing a personal vacation is a business expense) can be penalized by up to $5,000 per tax return.
- **Offshore tax avoidance** - Using offshore bank accounts and complex international tax structures to avoid paying taxes is still a common scam on the radar of IRS auditors.

Remember that the IRS will never call your and threaten jail time or ask you to meet and pay with a debit card. Should you ever be unsure of a situation give us a call.

Your New Life as a Pass-Through Entity Owner

If you are a small business owner, your planning probably got a lot trickier after the passage of the Tax Cuts and Jobs Act (TCJA). That's because most small businesses have legal structures that are treated as pass-through entities for tax purposes, meaning they "pass-through" their income to be taxed by their owners or investors on their Form 1040 individual tax returns. These entities include S corporations, partnerships and sole proprietorships.

On one hand, these kinds of businesses will benefit from the TCJA's 20 percent reduction to the taxation of business income. On the other, the rules used to determine how much of that reduction each business gets are complex. Here are some tips to help find out where your business falls in the new structure:

- **Know your businesses' QBI**- QBI stands for qualified business income, which is generally your business net income other than income in the way of compensation. QBI is the basic figure you need to determine how much of the 20 percent reduction you get. It excludes business losses, as well as factoring in amortization and capitalized expenditures. QBI is determined separately for each business activity, not per taxpayer.
    - The first simple threshold rule is: If your taxable income is less than $157,500 as an individual filer, or $315,000 as a married couple filing jointly, you can take the full 20 percent deduction from your QBI. If your taxable income is higher than those levels, several other factors come into play.

Buckle up and hold on, here is where it gets complex:

- **Know whether your profession matters**- Several "specified service professions" are treated differently under the new rules. The list includes health, law, consulting, athletics, financial services, brokerage services, accounting firms or "any trade or business where the principal asset ... is the reputation or skill of one or more of its employees or owners."
    - If your business is in one of these professional areas, the 20 percent reduction to your QBI starts to phase out to zero once your taxable income passes $157,500 as an individual filer or $315,000 as a married joint filer. The phaseout range before the reduction reaches zero is $50,000 for individual filers and $100,000 for married filers.

  The phaseout range also determines how much of the next factor matters:

- **Know whether wage and capital limits matter**- Once you go above the threshold, special wage and capital limits start to reduce your deduction. The formula for calculating the wage and capital limits is based on the greater of 50 percent of the W-2 wages paid by your business, OR 25 percent of the W-2 wages, plus 2.5 percent of the unadjusted basis of all qualified property acquired by your business over the year. These wage and capital limits are phased in over the threshold and apply in full after passing the $50,000 range for individual filers or $100,000 for married filers.

Bottom line: Get help

As you can see, the 20 percent pass-through reduction can be a great benefit, but taking it can get complex very quickly. If you are a small business owner, don't try to do it yourself. The new rules apply for the 2018 tax year, so after you've wrapped up 2017 taxes under the old rules, contact us for a consultation to determine how to position your business under the new laws.

In the meantime, please be patient. The IRS has yet to publish guidance on the new rules. Once we know more on the QBI Deduction we will let you know.

First Look: Kentucky Tax Reform

Kentucky followed the federal lead and passed long overdue tax reform. While the plan was originally vetoed by Governor Bevin his veto was rejected by the General Assembly and signed into law. Here are the basics of the new tax law in Kentucky.

- **Reduction of excludable pension income**. The bill reduces the excludable amount of pension income from $41,110 per taxpayer to $31,110
- **Establishes a flat individual income tax rate**. The bill replaces the current tax rates of 2-6% to a flat 5%.
- **Limits itemized deductions**. Many itemized deductions are no longer available such as medical insurance, medical expenses, taxes paid, and other miscellaneous itemized deductions.
- **Removes the personal income tax credit**. The current credit of $10 per taxpayer, spouse, or dependent is no more.
- **Changes the calculation and tax rate of corporate tax**. Corporations will now pay a tax rate of 5% replacing their current scale of 4-6%. The income tax will also be based solely on sales instead of the current three factors of sales, payroll, and property in the state.
- **Addition of sales tax on certain services**. Effective July 1, 2018, the Kentucky 6% sales tax will assessed on the following services: ***landscaping services*** (such as lawn care & maintenance, landscape design & care, and snow plowing and removal services), ***janitorial services*** (such as residential and commercial cleaning, and carpet, upholstery, and window cleaning services), ***small animal veterinary services***, ***pet care services*** (including grooming, boarding, daycare, pet sitting, and pet training services), ***limousine services, and dry cleaning and laundry services***. There are also adds sales tax to the admissions of the following activities: golf courses and county clubs, skating rinks, fitness and recreational sports centers, and bowling services. This is not a full list, if you feel you might be impacted give us a call.

  Kentucky's tax reform will not impact most taxpayers as much as the federal but the changing rate and decrease pension exclusion could be factors if not properly planned for. Give us a call if you want to setup an appointment.

Federal Tax Reform

Congress has passed tax reform that will take effect in 2018, ushering in some of the most significant tax changes in three decades. Here are some of the most significant items in the new bill that impact individual taxpayers.

- **Reduction of income tax brackets**. The bill retains seven brackets, but at reduced rates, with the highest tax bracket dropping to 37 percent from 39.6 percent.
- **Double standard deductions**. The standard deduction nearly doubles to $12,000 for single filers and $24,000 for married filing jointly. To help cover the cost, personal exemptions and most additional standard deductions are suspended.
- **Limits itemized deductions**. Many itemized deductions are no longer available or are now limited. Here are some of the major examples:
    - **Caps state and local tax deductions**. State and local tax deductions are limited to $10,000 total for all property, income and sales taxes.
    - **Caps mortgage interest deductions**. For new acquisition indebtedness, mortgage interest will be deductible on indebtedness of no more than $750,000. Existing mortgages are unaffected by the new cap as the new limits go into place for acquisition indebtedness after Dec. 14, 2017. The act also suspends the deductibility of interest on home equity debt.
    - **Limit on theft and casualty losses**. Now only available for federally declared disaster areas.
    - **No more 2 percent miscellaneous deductions**. Most miscellaneous deductions subject to the 2 percent of adjusted gross income threshold are now gone.
- **Cuts some above-the-line deductions**. Moving expense deductions get eliminated except for active-duty military personnel, along with alimony deductions beginning in 2019.
- **Weakens the alternative minimum tax (AMT)**. The bill retains the alternative minimum tax but changes the exemption to $109,400 for joint filers and the phaseout threshold to $1 million. The changes mean the AMT will affect far fewer people than before.
- **Bumps up child tax credit, adds family tax credit**. The child tax credit increases to $2,000 from $1,000, with $1,400 of it being refundable even if no tax is owed. The phaseout threshold increases sharply to $400,000 from $110,000 for joint filers, making it available to more taxpayers. Also, dependents ineligible for the child tax credit can qualify for a new $500-per person family tax credit.
- **Expands use of 529 education savings plans**. Qualified distributions from 529 education savings plans, which are not subject to tax, now include tuition payments for students in K-12 private schools.
- **Doubles estate tax exemption**. Estate taxes will apply to fewer people, with the exemption doubled to $11.2 million ($22.4 million for a married couple).
- **Reduces pass-through business taxes**. Most owners of pass-through entities such as S corporations, partnerships and sole proprietorships will see their income tax lowered with a new 20 percent income reduction calculation.

Because major tax reform like this happens so seldom, it's worth scheduling a tax planning if you still have any questions.