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20 WASHINGTON PARK
GREENVILLE, SC 29601

BATSON
ACCOUNTING & TAX, P.A.

TAX NEWSLETTER

The latest tax news and updates for the upcoming filing season

Welcome to 2018!

IN THIS ISSUE

WHAT AN INCREDIBLE YEAR IT HAS BEEN!

A new president, political and legislative challenges, and a new tax bill for 2018 have made it an endlessly interesting series of events. Amidst it all, the post card tax return doesn't appear on the immediate horizon, so we in the tax business apparently have a pass for another year. We look forward to helping you. Whew, we still have a job.

The Tax Cuts and Jobs Act HR-1 certainly creates challenges in planning for the 2018 year, but the rules for 2017 filings were largely unaffected by the new law. In other sections of this newsletter, we will address the new Act in some detail. What started as a postcard tax simplification effort ultimately developed into a more complex series of rules, but fundamental tax reform was not accomplished. Planning and estimations will be needed for many of you under new rules.

However, for your 2017 tax filings, both personal and corporate, the rules from 2016 are pretty much still applicable. You'll still get itemized deductions as previously allowed, income reporting is essentially the same as before, and the basic regulations were still in place as of 12/31/17. For your 2017 tax returns, and for the organizer packages we send to clients, the lines and the questions and the income, deduction, exemption and credit areas are much the same as before. Fortunately, the planning we did with many of you for 2017 is not impacted by the new Act.

It's great to have you back with us this year! Check areas of our newsletter for updates on a number of topics. And always feel free to call or email us for support and assistance.

FILING DATES

	Standard	Ext
Personal (1040)	**4/17/18**	10/16/18
Partnership (1065)	**3/15/18**	9/15/18
Trust (1041)	**4/17/18**	10/2/18
C-Corp (1120)	**4/17/18**	10/16/18
S-Corp (1120S)	**3/15/18**	9/15/18
Foreign Bnk Acct	**4/15/18**	10/15/18

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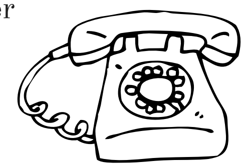
Our Staff

We're staffed better than ever to serve you during tax season! Here's the lineup:

- **Angela Gravley** – Office Manager/Staff Accountant/Payroll/Taxes
- **Christy Krzyzaniak** – Accounting/Administrative Assistant/Appointments
- **Tyson Byrd** – Staff Tax Analyst/Preparer
- **Ray Harris** – CPA/Tax Manager
- **Ann Batson** – Administrative/Tax Return Compiler
- **Leslie Stewart** – Adjunct Tax Analyst
- **Stephanie Wactor** – Adjunct Tax Analyst
- **Paul Batson** – Principal/Long Term Holdover



For appointments and phone consults, Christy will make arrangements for you. Call her at 235-6824.

Processing Your Returns

In many cases, the most efficient process is for clients to review/complete the organizer package sent to you, enclose source documents and deliver the package to our office. We can get the work in process quickly and can follow up with questions/requests/suggestions and results by phone.   Even in high season (mid-March to mid-April), we're usually able to complete processing in 10-14 days, but that can be delayed the later we go into the season. We are thorough in our preparation and review of your work and we appreciate your patience as we do our best to serve you personally.

Where there are more complex considerations, or where there is more comfort for you in a face-to-face meeting and for long term clients, please arrange a meeting with Ray, Tyson or Paul by calling or emailing Christy for a time. (Christy@batsontax.net).

Extended Tax Returns - What's Involved?

The basic rule is that corporate returns are due March 15th and personal returns are due April 15th. Extensions of time to FILE are automatically available upon request of the taxpayer until September 17th for corporate returns and October 15th for personal returns.

However, the extension of time to file **is not an extension of time to pay**. If you owe taxes, the amount must be paid by April 15th to avoid penalty. As long as the amount due is paid, you can wait until later to actually prepare the returns and file.

In a lot of cases, it can be a good idea to extend returns, particularly if there are complexities involved, forms are received late and/or there are life issues that cause the need to extend. We're happy to help you.

A NOTE FROM PAUL

Every year I look forward to connecting with long-time clients and friends during tax season, and to beginning relationships with new clients joining us. This year is no different, except that I am saddened in remembrance of several client friends who passed away in 2017. My sympathies go to their families.

Here in the office, we are abuzz about the new tax act and what effects it will have on our clients. When the rules change over the years, it's time to push the old stuff into a different part of the brain to make room for the new stuff. My brain is clogged with a lot of the old stuff so I have some housekeeping to do. But I'm fortunate to have some younger folks here who help me do that.

Many of you will have lots of questions about what's in that tax bill for you. We'll be glad to help navigate whatever planning needs to be done, and there will be a lot of that needed in 2018. Some have indicated this new bill is the "accountants' enrichment act." I don't know about that, but I do know there's more need for planning, or at least for education, in 2018 as in any recent year.

Now for the perennial question. When am I retiring? The answer is "not now." There are no immediate plans to retire or change ownership. When the time comes, I plan to give you adequate notice, but I also plan for there to be a continuation of Batson Accounting & Tax in some form so you'll have every incentive to stay put with us!

Every year, I am grateful for those who've been with me and all of us for many years through many tax seasons and tax rules. I'm deeply appreciative for your friendship and loyalty, and I hope you'll always find it worthwhile and helpful to stay with us!

Paul Batson

DISCLOSURE OF INFORMATION

Due to liability and confidentiality issues, we are unable to send tax returns to third parties directly. We will, however, be happy to send a PDF copy of your return to you for this purpose . We'll continue to assist you and will help with the paperwork. A fee applies.

Auto Expenses & Standard Mileage Rates

IR-2017-204, Dec. 14, 2017

WASHINGTON — The Internal Revenue Service today issued the 2018 optional standard mileage rates used to calculate the deductible costs of operating an automobile for business, charitable, medical or moving purposes.
Beginning on Jan. 1, 2018, the standard mileage rates for the use of a car (also vans, pickups or panel trucks) will be:

- **54.5 cents** for every mile of business travel driven, up 1 cent from the rate for 2017.
- **18 cents** per mile driven for medical or moving purposes, up 1 cent from the rate for 2017.
- **14 cents** per mile driven in service of charitable organizations.

The business mileage rate and the medical and moving expense rates each increased 1 cent per mile from the rates for 2017. The charitable rate is set by statute and remains unchanged.

Loss of Miscellaneous Itemized Deductions

One of the unhappy surprises of the new Act is that a number of deductions under Schedule A, Miscellaneous Itemized Deductions, will be gone for 2018. These include:

- Purchase of travel, transportation, meals, entertainment, gifts, and local lodging related to the taxpayer's work
- Union dues and expenses
- Work clothes and uniforms if required and not suitable for everyday use
- Work-related education
- Other miscellaneous itemized deductions subject to the 2% floor include:
- Repayments of income received under a claim of right, only subject to the two-percent floor if less than $3,000
- Repayments of Social Security benefits
- The share of deductible investment expenses from pass-through entities
- Business bad debt of an employee
- Business liability insurance premiums
- Damages paid to a former employer for breach of an employment contract
- Depreciation on a computer a taxpayer's employer requires him to use in his work
- Dues to a chamber of commerce if membership helps the taxpayer perform his job
- Dues to professional societies
- Educator expenses
- Home office or part of a taxpayer's home used regularly and exclusively in the taxpayer's work
- Subscriptions to professional journals and trade magazines related to the taxpayer's work
- Tools and supplies used in the taxpayer's work
- Job search expenses in the taxpayer's present occupation
- Laboratory breakage fees
- Legal fees related to the taxpayer's job
- Licenses and regulatory fees
- Malpractice insurance premiums
- Medical examinations required by an employer
- Occupational taxes
- Passport fees for a business trip
- Repayment of an income aid payment received under an employer's plan
- Research expenses of a college professor
- Rural mail carriers' vehicle expenses

A Primer on the Tax Cuts and Jobs Act

H.R. 1, as approved by Congress and signed by the President, impacts virtually every individual and every business. There will be winners and losers as tax brackets have been lowered but there are changes to the deductions allowed. Credits are affected and business tax rates are affected. Here are some of the important new changes to be effective for tax years beginning in 2018 (not for 2017 taxes).

The tax rates (brackets) have been reduced from a maximum of 39.6% to 37%. Along the way to that higher income, brackets have been changed at most levels of taxable income. See page 8 for copies of the 2018 brackets.

One of the most sweeping changes is the increase of the standard deduction. The standard deduction is the threshold amount for determining whether it is better to itemize deductions. The new law will cause many people to find it preferable to take the standard deduction rather than itemizing.

But the Act eliminates the personal exemption, currently an amount of $4,050 for each person in the household. So a couple married filing jointly with 2 other dependents would benefit in deductions by $11,300 if taking the new standard deduction but would lose personal exemption deductions of $16,200. However, that difference might be overcome by the increase in the child tax credit from $1,000 to $2,000 if there are qualified children in the family. Simple, huh?

Comparison of Tax Cuts and Jobs Act (H.R. 1) and Prior Law

	Prior Law (2017)	H.R. 1 (2018)
Child tax credit	$1,000 (refundable up to $1,000)	$2,000 (refundable up to $1,400)
Individual rates	10, 15, 25, 28, 33, 35, 39.6%	10, 12, 22, 24, 32, 35, 37%
Standard deduction	MFJ: $12,700 S: $6,350 HH: $9,350	MFJ: $24,000 S: $12,000 HH: $18,000
Corporate rate	35% maximum rate	21% flat rate
Pass-through income	Same as individual rates	20% deduction
Alternative minumum tax	Ind: 26, 28% Corp: 20%	Ind: exemption increased Corp: repealed
Personal exemptions	$4,050	Repealed
State and local taxes	Deductible	Maximum $10,000 deduction
Mortgage interest	$1 million limit	$750,000 limit

Source: CCH Tax Briefings TAX CUTS AND JOBS ACT Dec 21, 2017

The devil is in some of the detail, but we've listed some other changes on the next page. These notes are by no means exhaustive but likely everyone who reads this letter will be affected by some of these major matters.

AMT still exists, but it may be immaterial for everyone as the SALT deduction will be limited to $10,000 and miscellaneous itemized deductions are not applicable.

Because this Act becomes effective in 2018, there is a very long year ahead as accountants and lawyers will find ways to maneuver and as errors are found. That will likely mean either Congress or IRS or both will tweak the laws with a technical corrections act. Very likely, there will be other changes made in 2018 to amend or edit H.R. 1 as now posted.

A Primer on the Tax Cuts and Jobs Act (cont.)

- **Mortgage Interest Deduction.** For mortgages engaged after 12/31/17, interest is deductible on mortgages not exceeding $750,000, as opposed to the current limit of $1,000,000;
- **Mortgage Interest Deduction for Second Homes.** Still allowed within the lowered caps;
- **Home Equity Interest Deduction.** Eliminated totally after 12/31/17;
- **State and Local Tax Deduction.** After 12/31/17, reduced to a maximum of $10,000. This affects the deduction for state taxes paid through withholding and estimated taxes, property taxes on homes and personal property, and the general sales tax deduction if applicable;
- **Miscellaneous Itemized Deductions subject to 2% Floor.** After 12/31/17, these are totally repealed. No longer allowed are deductions for investment management fees, unreimbursed business expenses, home office expense (in some cases), tax preparation fees, union dues, uniforms and certain legal fees. This will affect some sales people and transportation industry employees, particularly (see next page for more details);
- **Alimony.** No alimony payments will be deductible for divorce instruments executed after 12/31/18. Same applies to alimony received, it won't be taxable income. Structures in place before then remain deductible as payments and taxable as alimony received;
- **Child Tax Credits.** After 12/31/17, the child tax credit increases from $1,000 per child to $2,000 and up to $1,400 of that will be refundable. Qualifying children must be under age 17 and must be dependents of the taxpayer;
- **Credit for Qualifying Dependents other than Children.** New. There will be a credit of $500 for dependents such as parents or older children still at home;
- **Student Loan Interest.** Still deductible with limits;
- **Sec 529 Plan Use Expansion.** Now up to $10,000 per student is allowed in distributions for use with K-12 education. Previously, Sec 529 plans were only for post-secondary education;
- **Estate Tax Exclusion Doubled.** For decedents after 12/31/17, the exclusion of taxable estate assets is now $11 million per person;
- **Individual Mandate.** For penalties assessed after 2018, the penalty for failing to have health insurance will be $0. The penalties will still apply for the 2017 tax year;
- **ACA Taxes.** The 3.8% net investment income tax (NII) and the Additional Medicare Tax on compensation of .9% were not repealed and will exist as of now;
- **Corporate Tax Rates.** Reduced from a max of 35% to 21% starting in 2018;
- **Bonus Depreciation**. Increases from 50% to 100% for property placed in service after 9/27/17;
- **Vehicle Depreciation.** There is an increase in the allowable amounts of depreciation for business automobiles after 12/31/17. First year depreciation will be up to $10,000 (from current $3,160) and there are similar increases for subsequent years;
- **Sec 179 Expensing.** Goes to $1 million for qualified purchases;
- **Pass Through Entities.** Owners of certain partnerships, S corporations and sole proprietorships will be able to deduct up to 20% of net income subject to other limitations. But rules will prevent some pass-through owners like doctors, lawyers and accountants from using the deduction unless taxable income levels are below $315,000. There is much more detail on this that we can provide at your request;
- **Phase Out of Itemized Deductions.** Suspended for tax years 2018 through 2025. Higher income taxpayers may now deduct all of their itemized deductions.

2018 TAX TABLES

For single filers:

Marginal Tax Rate	Taxable Income Range	If Your Income Falls Within This Range, Your Income Tax Is..
10%	$0-$9,525	10% of your taxable income
12%	$9,525-$38,700	$952.50 + 12% of the amount over $9,525
22%	$38,700-$82,500	$4,453.50 + 22% of the amount over $38,700
24%	$82,500-$157,500	$14,089.50 + 24% of the amount over $82,500
32%	$157,500-$200,000	$32,089.50 + 32% of the amount over $157,500
35%	$200,000-$500,000	$45,689.50 + 35% of the amount over $200,000
37%	Over $500,000	$150,689.50 + 37% of the amount over $500,000

Data Source: IRS.

For heads of household:

Marginal Tax Rate	Taxable Income Range	If Your Income Falls Within This Range, Your Tax Is..
10%	$0-$13,600	10% of your taxable income
12%	$13,600-$51,800	$1,360 + 12% of the amount over $13,600
22%	$51,800-$82,500	$5,944 + 22% of the amount over $51,800
24%	$82,500-$157,500	$12,698 + 24% of the amount over $82,500
32%	$157,500-$200,000	$30,698 + 32% of the amount over $157,500
35%	$200,000-$500,000	$44,298 + 35% of the amount over $200,000
37%	Over $500,000	$149,298 + 37% of the amount over $500,000

Data Source: IRS.

For married couples filing jointly:

Marginal Tax Rate	Taxable Income Range	If Your Income Falls Within This Range, Your Tax Is...
10%	$0- $19,050	10% of your taxable income
12%	$19,050-$77,400	$1,905 + 12% of the amount over $19,050
22%	$77,400-$165,000	$8,907 + 22% of the amount over $77,400
24%	$165,000-$315,000	$28,179 + 24% of the amount over $165,000
32%	$315,000-$400,000	$64,179 + 32% of the amount over $315,000
35%	$400,000-$600,000	$91,379 + 35% of the amount over $400,000
37%	Over $600,000	$161,379 + 37% of the amount over $600,000

Data Source: IRS.

For married couples filing separately:

Marginal Tax Rate	Taxable Income Range	If Your Income Falls Within This Range, Your Income Tax Is..
10%	$0-$9,525	10% of your taxable income
12%	$9,525-$38,700	$952.50 + 12% of the amount over $9,525
22%	$38,700-$82,500	$4,453.50 + 22% of the amount over $38,700
24%	$82,500-$157,500	$14,089.50 + 24% of the amount over $82,500
32%	$157,500-$200,000	$32,089.50 + 32% of the amount over $157,500
35%	$200,000-$300,000	$45,689.50 + 35% of the amount over $200,000
37%	Over $300,000	$80,689.50 + 37% of the amount over $300,000

Data Source: IRS.

Standard Deduction

Tax Filing Status	2017 Standard Deduction	2018 Standard Deduction
Single	$6,350	$12,000
Head of household	$9,350	$18,000
Married filing jointly	$12,700	$24,000
Married filing separately	$6,350	$12,000

Data Source: IRS.

COURT CASE: Deductibility of Education Costs for a New Degree

Every year, there are court cases that reinforce the use of regulations or establish a change in thought or rule in favor of the taxpayer. This particular case centered around whether a student could take a tax deduction for his costs in earning a new degree. In this case, the Court agreed with IRS.

AdClaims Court: Costs of Getting a PhD Can't Qualify for Education Expense Deduction
Czarnecki, (Ct Fed Cl 10/13/2017) 119 AFTR 2d ¶ 2017-5372

The Court of Federal Claims has held that costs of participating in a PhD program could not qualify for the education expense deduction because PhD studies would lead the student to qualify for a new career, i.e., a career as a university professor. The court also held that the taxpayer failed to show that his PhD studies maintained and improved required skills or were required by law.

Background. Education expenses are deductible under Code Sec. 162(a) if made by a taxpayer either to maintain or improve skills required in his business or employment or to meet the express requirements of his employer, or the requirements of law or regs, imposed as a condition to retaining his salary, status or employment. (Reg. § 1.162-5) However, deductions aren't allowed if the education is part of a program of study that will lead to qualifying the individual in a new trade or business. (Reg. §1.162-5(b)(3)(i))

Facts. The taxpayer, Mr. Czarnecki, earned a bachelors degree in engineering in '94. In '98, he enrolled in the PhD program in structural engineering at MIT. Over the next several years, he had various different jobs for various different employers as an engineer. In 2008, he became a licensed professional engineer in the State of New York. At various different times, including 2010 and much of 2011, he worked as a structural engineer for the United States Navy. In 2014, Czarnecki ceased work on his doctoral thesis without having obtained a degree. On his 2010 Form 1040, he claimed a deduction for educational expenses paid with respect to his doctoral studies. IRS disallowed his educational expense deduction.

Findings. Education expenses weren't deductible. The court held that the education expenses were not deductible for two separate reasons: (1) Czarnecki failed to show that his studies maintained and improved required skills or were required by law; and (2) the court concluded that his studies would lead to qualifying for a new trade or business....Maintaining and improving required skills, etc. The court concluded that Czarnecki did not show that his studies maintained and improved required skills or were required by law. The holding in this case is in effect saying that, unless the taxpayer was a professor before beginning his PhD studies, the cost of PhD studies won't qualify for the education expense deduction.

Credit: Dallas Bar Association