Tax Tidbits

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A Very Difficult Tax Season

The past tax season, that being the one in which we all got to experience the effects of the Tax Cuts and Jobs Act, was one of the most difficult that I have ever experienced. I was around for the implementation of the Tax Reform Act of 1986, which was a monumental tax law change, and I do not remember those changes being as difficult as the current ones. I just read an article published by the American Institute of Certified Public Accountants which said that this past tax season was the most challenging for tax practitioners. I heartily concur.

One of the biggest challenges was the fact that most people did not have a clear understanding of what to expect with the new tax law. They had a hazy idea of what documents to present to their preparer, because the changes were somewhat radical when compared to the last thirty years. People generally have a fairly good idea of what items will impact their tax returns, because there are not usually sweeping changes, as there were this year. Even if the general American taxpayer took it upon themselves to try to educate themselves on the new tax law, there were not a lot of publications that covered the changes. They would have to have read a lot of information and sifted out what might have affected their particular situation. People did have a firm understanding of the change in the Standard Deduction. That is where some of the confusion occurs. In my discussions with clients and non-clients, there was a general misunderstanding that taxpayers could not itemize deductions anymore or taxpayers were not allowed to claim charitable contributions or deduct property taxes. The state and local property tax cap of $10,000 did not help either. Additionally, in states like New York, the state government devised forms to thwart the Federal government's efforts to limit deductions. Some examples were removing the tax cap of $10,000 or putting back the miscellaneous deduction area of the itemized deductions. In New York's case, the final form did not get approved in some software until the second week of February 2019.

Never before in my 40 plus years of preparing tax returns have I seen politics have such a deleterious effect on the process of filing a tax return. It is hard enough for some people to bring themselves to do the annual compliance ritual, without additional external forces messing with the process. The government shutdown itself threw all kinds of uncertainty into the mix as to whether tax customer service phone lines would be available and the delayed approval of tax forms, which had a ripple effect from federal forms into the approval of state forms.

It can be certain that change is constant when it comes to taxes. We all learned things from this past tax season and I think that our staff, as well as our clients, are better for what we all were able to come away with. Unfortunately, the number of clients on extension is at an all time high within our firm and nationally. We will continue to work through them until completion. As clients begin to grasp a firmer understanding of the law, fewer will go on extension in the future.

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Making Smart Savings Choices

In today's economy, many people are looking for ways to stretch their money — but sometimes this includes altering insurance coverages to dangerously low levels or eliminating coverage entirely. If you're thinking about changing your coverage to save money, consider the key issues below — and give us a call. We can help make sure you've got the right protection at a price you can afford.

- **Make sure you're getting the appropriate discounts and credits:** Most insurers offer a variety of policy credits and account discounts that can translate into significant savings without endangering the level of protection you need for your home, autos and other valuable property. Often, if you purchase multiple policies through the same insurance company, you'll receive further discounts. People who own motorcycles or boats and who complete approved safety courses can qualify for discounts and families with teen drivers who earn good grades in school may qualify for auto policy discounts.
- **Increase deductibles for cost savings:** Only a small percentage of homeowners have claims in any given year, so you might consider increasing your deductible.
- **Specialty lines coverage options:** Own a classic car or RV? If their use is seasonal, you can typically reduce your coverage to liability only during the off-season, then add full coverage only when you are actually using the vehicle.
- **Full payment on policy:** Depending on your financial circumstances, you may be able to make lump sum payments instead of partial premium payments, such as monthly or quarterly. Partial payments often include small transaction fees, so paying the full amount can eliminate those extra costs.

Some decisions to avoid

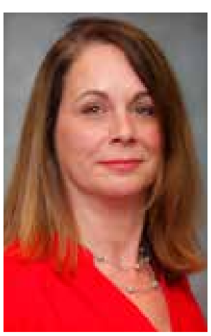
It is just as important to understand what not to do as you look for cost savings. Here are some scenarios you should avoid:

- **It may be unwise to carry only the minimum state-required amount of uninsured/underinsured motorist coverage on auto policies or to cancel it entirely if it is not required in your state:** According to the Insurance Research Council, the correlation between the percentage of uninsured motorists and the unemployment rate is high when the economy is struggling, more people go without insurance. You want to make sure you're protected in this instance.
- **Ignoring renters insurance:** This coverage is often overlooked no matter the shape of the economy. Landlords' policies generally cover only the structure, not the individual renters' contents. Imagine having to replace furniture, clothing and other personal property out-of-pocket because you excluded this essential, affordable coverage and then suffered a devastating loss from a burglary or other non-covered event.

Saving money is important, but so is making sure that what you have is protected. If you're looking for ways to save or want to review your coverages, give us a call!

Suzanne M. Valicenti
President/CEO

Business vs. Hobby



Millions of people enjoy hobbies that are also a source of income. From catering to cupcake baking, crafting homemade jewelry to glass blowing — no matter what a person's passion, the Internal Revenue Service offers some advice on determining whether you have a business or if it is a hobby.

Taxpayers must report on their tax return any income earned. The rules for how to report the income and expenses depend on whether the activity is a hobby or a business.

In making the distinction between a hobby or business activity, take into account all facts and circumstances with respect to the activity. A hobby activity is done mainly for recreation or pleasure. The IRS considers a legitimate business to have a primary purpose of "income or profit" and is engaged in "with continuity and regularity." No one factor alone is decisive. Generally, you must consider these factors in determining whether an activity is a business engaged in making a profit:

- Whether you carry on the activity in a businesslike manner and maintain complete and accurate books and records.
- Whether the time and effort you put into the activity indicate you intend to make it profitable.
- Whether you depend on income from the activity for your livelihood.
- Whether your losses are due to circumstances beyond your control or are normal in the start-up phase of your type of business.
- Whether you change your methods of operation in an attempt to improve profitability.
- Whether you or your advisors have the

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Taxation Related Election Headwinds

Election cycles get longer and longer, elongating the time politicians waste voter attention by campaigning. For instance, when Bill Clinton announced his intent to run for the presidency in 1992, he did so at the beginning of October the year before the presidential election with 13 months of campaigning. This year's crop of presidential primary competitors began announcing their intent to run this last January, giving voters 22 months of hot air and fatuous ideas across the political spectrum. Unfortunately, this does have an impact on financial markets and your investments.

Aside from the China tariff skirmish, one of the current headwinds affecting the market is worry that if there is a change of administration, an undoing of the 2017 tax reform package would occur. Concerns focus on some candidates threatening a corporate tax hike after rates were cut just two years ago. Such bipolar tax policy would undermine capital expenditures and investment by U.S. corporations, as CEOs are beginning to defer spending while waiting to see who wins and what tax policy will prevail. It is important to note that plants were designed and built with the idea that corporations would pay a 21% tax rate, which is attractive when compared with our developed nation competitors. One of the most important reasons for the reduction in corporate rates, keeping American companies in America, is rarely discussed. High corporate tax rates during the first 17 years of this century induced American companies to re-domicile to the Cayman Islands, Ireland, the U.K., the Netherlands and Switzerland, to name a few locations. Doing so deprived the U.S. Treasury of tax receipts and reduced the number of Americans employed. If the corporate portion of the 2017 tax reform were to be undone, companies would again begin to leave the United States.

Headwinds are already being felt for stocks that focus on heavy industry, the military and healthcare. As politicians keep talking, headwinds will continue and, unfortunately, electioneering will affect the stock market.

Louis F. Ruize
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Business

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knowledge needed to carry on the activity as a successful business.

- Whether you were successful in making a profit in similar activities in the past.
- Whether the activity makes a profit in some years and how much profit it makes.
- Whether you can expect to make a future profit from the appreciation of the assets used in the activity.

It is the IRS that determines if your activity is a business or a hobby. This doesn't happen unless you get audited. You want to be sure that you can show that your activity meets the guidelines listed above.

Finally, this statement from the IRS: "The IRS presumes that an activity is carried on for profit if it makes a profit during at least three of the last five tax years, including the current year — at least two of the last seven years for activities that consist primarily of breeding, showing, training or racing horses." Note that the three out of five IRS statement is a guideline, not a rule. All other factors must also be taken into consideration.

Amy M. Chacho
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Determining Basis

Generally, for tax purposes, basis is the amount of your capital investment in property. Basis is used to figure depreciation, amortization, depletion, casualty losses, and any gain or loss on the sale, exchange or other disposition of the property.

In most situations, the basis of an asset is its cost to you. The cost is the amount you pay for it in cash, debt obligations and other property or services. Cost includes sales tax and other expenses connected with the purchase. If you buy stocks or bonds, your basis is the purchase price plus any additional costs such as commissions and the recording or transfer fees.

Basis is determined differently if you acquire property, such as a gift or an inheritance, other than through a purchase. Inherited property is property that a person receives from someone after the giver dies. If a taxpayer receives property from someone and that person has not died, it is not considered inherited property — it is a gift.

To figure the basis of property you receive as a gift, you must know its adjusted basis to the donor just before it was given to you, its fair market value (FMV) at the time it was given to you and any gift tax paid on it. If the FMV of the property at the time of the gift is less than the donor's adjusted basis, your basis depends on whether you have a gain or a loss when you dispose of the property. If the FMV of the property is equal to or greater than the donor's adjusted basis, your basis is the donor's adjusted basis at the time that you received the gift.

The basis of property inherited from a decedent is generally the FMV of the property at the date of the individual's death. Another way to determine basis of inherited property is the FMV on the alternate valuation date, if the personal representative for the estate chooses to use an alternate valuation.

Before figuring a gain or a loss on a sale, exchange or other disposition of property

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The IRS Needs Serious Help

That's right, I said it. Our nation's chief source of securing revenue is not being taken seriously. In the aftermath of the Tax Cuts and Jobs Act, there have been cries of raising income taxes, estate taxes and the possibility of increases in the corporate tax rate which was just lowered to 21% in the last tax law change. If people who run the government want to increase tax revenue, they need to make sure that the system is operating as efficiently as possible and that compliance with the tax laws is adhered to. The primary way to ensure that compliance is working is to conduct audits. The word "audit" takes on a whole different meaning when people associate it with taxes. It becomes this larger than life, overbearing force, when in fact it simply involves an inquiry of certain aspects of your tax return and assurance of compliance.

Based on a recent New York Times article, the IRS has fewer auditors now than at anytime since the early 1950's. The IRS budget has dropped by $3 billion since 2010. High earning individuals ($10 million or more), as well as the largest corporations, usually faced the prospect of being audited annually. Now, that just does not happen. It is no secret that the ultra-rich and large corporations are escaping the payment of their fair share of taxes.

Additionally, the methods of making income "disappear" overseas or hiding it in vast arrays of business entities is somewhat formidable. An audit team now needs to be incredibly sophisticated to penetrate such tax bulwarks. The IRS will not only need an increased budget, but a team that is able to work through the logic of the business designs and the tax laws that apply to those designs. As a personal example, about 20 years ago a small business client of mine was being audited. I was able to use the latest tax texts at the time to defend the client's position. The auditor could only use the IRS code, regulations and audit guides. He was not allowed to use the publications that are available to the entire tax industry. A distinct disadvantage for the IRS agent, yet my client was happy with the victory.

As a result, with any system of operation, the easier targets are exploited. It is so much easier for the IRS to enforce the laws on the lower 90% of the population of taxpayers. Computer matching of reporting documents (i.e. W-2 & 1099 forms) and scoring items in a tax return (i.e. relative size of an expense to the same used in an industry average) are tools that are very effective in smaller, uncomplicated tax situations. Moreover, within the last several years, the IRS has referred to certain members of the profession (attorneys, CPAs and EAs) as stakeholders. Accordingly, the IRS has treated us as members of their "audit" team. The way that it works is that there are certain tax credits and filing statutes that now require the tax preparer to attest to the fact that they have conducted the due diligence to determine the eligibility of the taxpayer to those tax benefits. If there are reasons later found that the taxpayer was not eligible to have those tax benefits, the tax preparer is fined personally. The IRS is "creeping" this into more areas of the tax return process.

No doubt we all will be hearing more on this front as we approach the 2020 presidential election. Both Republicans and Democrats have announced their respective plans to deal with the need for increased revenues and policing non-compliance. We in the tax profession must be ready to adjust to the changes, as we have done all of our professional lives.

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Basis

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or before figuring allowable depreciation, you must determine your adjusted basis for that property. Certain events that occur during the period of your ownership may increase or decrease your basis, resulting in an adjusted basis. Increase your basis by items such as the cost of improvements that add to the value of the property and decrease it by items such as allowable depreciation and insurance reimbursements for casualty and theft losses.

If you hold property for personal use and then change it to business use or use it to produce rent, you must figure its basis for depreciation. An example of changing property held for personal use to business use would be renting out your former main home. The basis for depreciation is the lesser of the FMV or your adjusted basis on the date of the change.

In conclusion, the basis of property acquired can be anything but simple, yet very important.

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Please note that our Tax and Business Services Department, our Insurance Division and our Investment Advisors are available to answer any questions that you may have regarding the articles in this publication. We look forward to hearing from you.