

## 2019 Year End Tax Letter

2019 has been an exciting year of growth and change for our firm. We expanded with new partners, a new name, and a second office in Fargo, North Dakota. We welcomed new partners Mark Schiller and Jacob Styer, and the company became Williams, Schiller & Styer, PC, doing business as WSS CPAs & Consultants.

WSS CPAs & Consultants remains in our Sandpoint office at 708 Superior Street. Meanwhile, the new office in Fargo opened in July with Schiller, a former Sandpoint resident, as its managing partner, and bookkeeper Mikayla Kosolofski as highly-skilled support staff.

With the expansion of the Fargo office and addition of two new partners, we're excited for the future, and for our increased ability to carry out the complete range of tax and financial services for individuals and businesses. One major new addition to our offerings are business valuation services, which gives business owners a professional, objective analysis of company value with careful consideration of each unique situation.

We also welcomed some additional staff to our Sandpoint location this year. Joining us in early August, Taylor Graphenteen, CPA, has been focused on our individual clients' tax concerns, as well as private businesses and their owners. Taylor brings an extensive background in internal and external accounting, budgeting, financial reporting and tax projections in the manufacturing, real estate, and construction industries.

In our bookkeeping and payroll department, we welcomed Mindy Dixon in early November. Mindy is a professional bookkeeper and tax preparer, offering her clients a full-range of services including; payroll and payroll taxes, accounts payable and receivable, bank reconciliations, cash flow management, and financial reporting.

Starting in January 2020, longtime staff member Brett Sweezy, CPA, will be primarily focusing on the Firm's international tax clients and as in prior years, will assist with our internal tax review process. Additionally, he will be working part-time for a Colorado-based company, requiring him to travel to the Boulder area once a month. Rest assured, Brett will still be available to assist with the seamless transition of his clients to other CPA's within the office throughout the upcoming tax season.

As we look forward to the holidays and New Year ahead, we want to say thank you to all of you, our clients and friends, for making 2019 such a momentous year for us, personally and professionally. We sincerely appreciate the trust you have given us, and are excited to see what the future has in store.

Please read on for some end-of-the-year tax planning and tips, and other items of interest for financial health and well-being.



**Individuals** With only a short amount of time before the calendars flip to 2020, it is a “last call” to focus on what can be done before December 31st to reduce your tax bill.



One source estimated that about 30 million fewer taxpayers itemized their deductions in 2018 versus 2017 due to The Tax Cuts and Jobs Act (TCJA), so that in and of itself eliminates a number of strategies for many. Those who can claim itemize deductions may benefit from accelerating expenses into this year. Here are a few examples:

- Make your January 2020 mortgage payment before year end
- If your medical costs have already broken through the 10%-of-AGI threshold for the year, it might behoove you to schedule and pay for an elective surgery before the close of the year.
- Charitable donations are another great way, if you can itemize, to lower your federal tax bill assuming you get the check in the mail or donate the property before Dec. 31st. There are a number of things to consider if you plan on donating property, so give us a call and we can help you navigate those decisions.

In many cases it is beneficial to look at these potential itemized expenses over a two year period. Give us a call and we can talk through some potential strategies. Keep in mind that the standard deductions for 2019 increased slightly to \$12,200 for individuals, \$18,350 for heads of household, and \$24,400 for married couples filing jointly.

Do not forget about pre-tax contributions to your IRA or 401k plans that will lower your tax bill. The limits have bumped up slightly since last year. Expecting a large bonus this year that you haven't withheld any tax from? It would be a great idea to defer that into your retirement plan, if you have one.

Below are the new maximum tax-free deferrals for 2019:

Type of Plan	Under Age 50	Over Age 50
IRA (Traditional and Roth)	\$6,000	\$7,000
401(k)/403(b)/457(b)	\$19,000	\$25,000
SIMPLE IRA	\$13,000	\$16,000

And on the subject of IRAs, if you are over the age of 70 ½ you must take your Required Minimum Distribution (RMD) or pay a fine equaling 50% of your shortfall. Don't know what your RMD is? The Tax Professionals here at WSS can help calculate that with you.

If you are already looking at a large tax liability this year, even without your RMD, you might want to consider donating that RMD as a Qualified charitable distribution.



## Year End Tax Planning for Individuals & Businesses *cont'd*

**Businesses** Now, what can you do for your business before the end of the year to mitigate some of your business's taxes? Just as outlined for your individual tax return, business owners also have some options for reducing their taxable income. We understand that your annual tax expense is a real expense that impacts your business. We appreciate that you look to us to manage that just like you manage the rest of your business expenses. We try to look at the situation over a number of years rather than simply focusing on a single year. The goal is to manage your income and expenses in a way that maximizes your overall tax savings for all years.

- In years of profit, do not forget about the generous write-offs for business asset purchases. With the 100% bonus depreciation still in effect, businesses are allowed to deduct the full cost of qualifying assets with lives of 20 years or less that get placed into service before Dec. 31st. There are some specific rules to consider when we talk about business autos so give us a call if you are considering making a purchase like this and planning on writing it off in the first year.

As stated above, we will try to look at this from a wider lens. It may make sense to accelerate deductions into the current year, but that may drive up net income in future years which may not be the right strategy for you.

- Perhaps the most beneficial of the Tax Cuts and Jobs Act is the 20% Qualified Business Income (QBI) deduction, which is still available to self-employed individuals and owners of S corporations, partnerships and LLCs.

## Real Estate Tax Opportunities

### **Rentals and the QBI deduction**

Do you have rental income and wondering if you can utilize the 20% Qualified Business Income (QBI) deduction against that income? Applying the QBI rules to rentals can be a bit tricky.



The internal revenue code states the rental activity must rise to the level of a trade or business. Since a trade or business level isn't technically defined, owners of rental real estate are allowed to use a safe harbor election. If at least 250 hours were devoted to the rental activity by the taxpayer, employees, or independent contractors throughout the year, then the rental income will qualify for the QBI deduction. Hours put in for arranging financing, constructing long-term capital improvements, and driving to and from the rental are not counted towards the 250-hour threshold.

Users of the safe harbor must meet strict record-keeping requirements and remember the safe harbor doesn't apply to property leased under a triple net lease or personally used by the owner for the greater of 14 days or 10% of the days rented.



## Real Estate Tax Opportunities *cont'd*

### **Different Real Estate Investments that can help reduce taxes**

The Opportunity Zones Program has been one of the hottest topics since the Tax Cuts and Jobs Act. The TCJA added new provisions incentivizing investments in economically depressed areas (i.e. opportunity zones). If you sell a capital asset for a gain, you can reinvest the proceeds into qualifying opportunity zone property and defer the tax to a later date. Up to 15% of the deferred gain is permanently excluded from income if the opportunity zone investment is held for more than 7 years. Any post investment appreciation in the opportunity zone property is permanently excluded from income if the investment is held at least 10 years.

Now, if you are thinking that this probably only applies to taxpayers in urban areas or bigger cities, you should know there are opportunity zones right here in North Idaho. Sandpoint, Bonners Ferry and Post Falls all have investment sites that are qualified opportunity zone properties. Give us a call if you think this may be a strategy you would like to consider.

*More information can be found at:*  
<https://commerce.idaho.gov/incentives-and-financing/opportunity-zones/>

---

### **Federal Income Tax Withholding Methods**

With 2019 all but over, we will focus in on withholding for 2020. The major changes of the TCJA resulted in many taxpayers receiving a much smaller refund, or even owing taxes for 2018, when compared to years past. The IRS released a draft copy of new IRS Pub. 15-T (Federal Income Tax Withholding Methods), for use in calculating withholding in 2020.

The 2020 Form W-4 has been redesigned to reduce the form's complexity and to increase transparency and accuracy in the withholding system. We suggest all employees request a new W-4 from their employer and update their withholding for 2020 so that it is in line with the new tax brackets and law. Give us a call if you need any help. The state of Idaho also released a new W-4 and worksheet, so be sure to update that as well. Those who work with payroll departments are encouraged to review the new IRS Pub. 15-T before the beginning of the first 2020 pay period.

---

### **Virtual Currency Transactions**

The IRS is much more serious this year about dealing with Virtual Currency (VC), and has begun to crack down on VC transactions as blockchain technology continues its insurgency. Last year the IRS announced a Virtual Currency Compliance campaign to address tax non-compliance related to the use of virtual currency through outreach and examinations of taxpayers.

The IRS states it will remain actively engaged in addressing non-compliance related to VC transactions through a variety of efforts, ranging from taxpayer education, to audits, to criminal investigations. The IRS has also begun sending letters to taxpayers with VC transactions that potentially failed to report their transactions properly. If you have been dealing with any Cryptocurrencies or received a letter from the IRS, it may be time to make an appointment to talk to your tax professional at WSS.



# NEW Fraud Scams – Be Aware

## IRS Impersonation Email

The IRS is warning taxpayers and tax professionals about a new IRS impersonation scam campaign spreading nationally on email. The IRS detected this new scam as taxpayers began notifying phishing@irs.gov about unsolicited emails from IRS imposters.



**“The IRS does not send emails about your tax refund or sensitive financial information,”** said IRS Commissioner Chuck Rettig. “This latest scheme is yet another reminder that tax scams are a year-round business for thieves. We urge you to be on-guard at all times.”

The IRS does not initiate contact with taxpayers by email, text messages or social media channels to request personal or financial information. The IRS also does not call to demand immediate payment using a specific payment method such as a prepaid debit card, gift card or wire transfer. Generally, the IRS will first mail a bill to any taxpayer who owes taxes. If you receive any correspondence that states it is from the IRS and you aren't sure what it is, give your tax professionals at WSS a call.

## New Social Security Number Scam

The IRS is warning taxpayers about a Social Security Number (SSN) scam currently making the rounds. As part of the scam, thieves may call, often as a “robocall”, and try to get you to call back by claiming that your SSN is at risk.

The scheme is similar to one that the IRS previously deemed “the SSN hustle.” As part of the con, scammers may try to convince you to confirm personal information, like Social Security numbers and bank account numbers, by claiming that your Social Security number may be deactivated or deleted. Do not fall for the tricks!

Social Security numbers do not have an expiration date, and you do not have to reactivate or confirm them for them to be valid. Do not call the number or engage with the scammer—even if you think you can get the better of them. Just hang up.

The bottom line is that the IRS will not contact you by email, phone call, or text message so if you receive any of those, just ignore it. Even if it is the IRS, they will find another way to contact you. If you receive a letter from the IRS, bring it in and we will help respond accordingly.



WSS CPAs and Consultants is dedicated to providing tax planning and preparation, payroll, bookkeeping and more with personalized attention to individuals and small businesses. We deliver high-quality, timely tax and accounting services customized to each client's needs.

We want to know about your family, your background, your goals and dreams. Long-term relationships are our foundation - **call WSS CPAs to schedule your appointment today!**

**Join Us!**

**Business After Hours Open House  
Wednesday, January 29th from 5pm – 6:30pm  
Sandpoint Office (708 Superior St, Suite A)**

***This event is your chance to learn more about the services we offer, and meet the many friendly professionals on our team. Appetizers and beverages provided, so please come celebrate the New Year and beginning of the 2019 tax season with us!***

*This letter is written in general terms for the widest use possible. This is intended as a guide only; the application of its concepts to certain situations will depend on the circumstances involved. Accordingly, we recommend that readers seek appropriate professional advice before implementing any strategies. This letter should not be relied on as a substitute for that advice. If you have questions about how tax law or other financial matters may affect you, please call us at (208) 265-5959. Tax advice included in this communication was not intended or written to be used, and cannot be used by a taxpayer, for the purpose of avoiding any penalties that may be imposed under the Internal Revenue Code or applicable state or local tax law provisions.*