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Small Business Services Group

TRONCONI SEGARRA & ASSOCIATES LLP

Certified Public Accountants
Business Consultants

Helping Our Small Business Clients Reach Their Full Potential

"Bad people are sent to Washington by good people who don't vote."

William E. Simon
American businessman, Secretary of the Treasury [1974 – 1977] and philanthropist, 1927 - 2000

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Year-End Tax Planning Opportunities

By Maria A. Dojka, CPA, Manager

The Tax Cuts and Jobs Act (TCJA) has brought about significant changes to U.S. tax law. Small business owners are most likely taxed as either a sole proprietor, an S corporation, or as a partnership, in which case your business income flows through to your personal tax return. So, how do the tax law changes affect you; and what can you do before year end to prepare for these changes?

Since flow-thru income is taxed at the personal rate, the new reduced individual tax rates provide some benefit to small business owners, along with the 20% Qualified Business Income (QBI) Deduction. The 20% QBI deduction is available to taxpayers if taxable income is below $157,500 for single filers and $315,000 for married taxpayers filing jointly and begins to phase-out above these thresholds.

If your income exceeds the income threshold and your business is not considered a "specified service trade or business," then the deduction is not limited based on the level of your taxable income, but is, however, limited to the greater of:

- 50% of the business's W-2 wages; or
- The total of 25% of W-2 wages plus 2.5% of the unadjusted basis of qualified depreciable property.

Under the TCJA, Section 179 deduction amounts have increased to $1 million, and the phase-out threshold for qualifying property now begins at $2.5 million in 2018. Section 179 has also been expanded to allow expensing for roofs, HVAC, fire protection and alarm systems, and security systems. In addition to Section 179, businesses can claim 100% first-year bonus depreciation for qualified property acquired and placed in service after September 27, 2017, and before January 1, 2023. These deductions can be applied to both new and used property.

Businesses whose 3-year average gross receipts are $25 million or less can elect to use the cash method of accounting, which allows you to recognize revenue when cash is received. These businesses are also not subject to the limitation on business interest expense which disallows interest expense in excess of 30% of its adjusted taxable income.

There are many planning opportunities for businesses to consider as the year comes to a close. Should you need assistance please contact your Tronconi Segarra & Associates advisor.

SINGLE PAYER HEALTH CARE COMING TO NEW YORK STATE?

As a result of the 2018 New York State (NYS) elections this month where the votes of residents across the state resulted in Democrat majorities in both the Assembly and the Senate, single-payer health care may soon become a fact of life in NYS.

Health care is a key issue for Republicans and Democrats alike, and very strong feelings exist in both parties about the future of health care in New York. The New York Health Act (NYHA), if passed by the NYS legislature, would launch ***state-financed*** single-payer health care in New York. This type of plan would provide health care to New Yorkers at no direct cost (no copays, deductibles or premiums) and would cover hospital care, prescriptions, dental and vision care, etc.

Certainly the overriding questions center on the actual cost to fund such a program – the cost to taxpayers as well as providers. Generally speaking, the NYHA would obtain funding from NYS taxpayer dollars that are currently allocated to Medicare and Medicaid, as well as all other insurance products. In addition, the NYHA proposes two new, progressively graduated state taxes on NYS residents and employers. One is a payroll tax split between employers (80%) and employees (20%); second is a tax on non-payroll income. There are further issues and unknowns about the NYHA, including the process of reimbursing providers, the elimination of jobs in the insurance industry, and whether NYS taxpayers (employers and residents) can bear these tax increases. These, along with many other questions, remain unanswered about this very complicated and controversial issue. We will continue to monitor it on your behalf.

Lisa Mrkall, CPA, MBA, Senior Manager

No HR Department? Online Resources Can Help Retiring Employees

By Barbara Harmel, Marketing Manager

Many employees turn to their Human Resource (HR) Departments for answers to their retirement questions. But what if their employers don't have an HR Department or personnel to assist them?

Fortunately, in today's digital world, there are many reliable online resources that employers can suggest their employees utilize to educate themselves about retirement and learn more about the options and enrollment deadlines that exist.

One of the most important things an employee ***of any age*** should consider doing is setting up their "My Social Security" account on the U.S. government's secure Social Security Administration (SSA) website (https://www.ssa.gov). There, an employee can view/print out a copy of his/her SSA earnings record and estimated retirement benefits as calculated by the SSA. It is also a good way to ensure an individual's earnings have been accurately recorded each year, since that is how the SSA determines an individual's SSA retirement benefit. If you believe your SSA earnings record is incorrect, visit the SSA website for information on how to request a correction.

In the three months before turning 65 years of age, even if an individual does not plan to retire or is covered by other health insurance, Medicare, the federal government's health insurance program primarily for individuals 65 and older, recommends that individuals enroll in Medicare if they will need health insurance from age 65 forward. While the SSA website does feature some information about Medicare, there is also a separate website for Medicare – www.medicare.gov – with much more information available about the Medicare program. It details the various Parts of Medicare (A, B, C and D) and provides information about enrollment timing, the benefits offered under each Part, and ***premium penalties that may be assessed should an individual enroll in certain Parts after age 65.***

Educating oneself about retirement and learning about the rules, timing and options available within various programs can go a long way in making one feel more in control in the years before and during retirement. Your Tronconi Segarra & Associates tax advisor is always available to assist whenever possible.

More Tax Planning Ideas for Closely-Held Businesses, Thanks to TCJA

By Michele Loretto, CPA, Manager

While large corporations under the new TCJA now have a flat corporate tax rate of 21%, closely-held small businesses also have gained some advantages under the TCJA. As we read in the article on Page 1 of this newsletter, there are some limitations to the QBI deduction. However, there may be a gap between the first limit of 20% of taxable income and the second limitation based on wages. Non-specified service businesses with lower levels of W-2 wages could benefit by paying out a bonus near year end to boost W-2 wages. This is where the opportunity lies. A closely-held S-corporation can pay out a considerable bonus without significant cost to the owner. Increasing the total W-2 wages may allow for an additional 20% deduction on those W-2 wages. The additional cost of payroll taxes can be well worth the additional deduction, especially for wage earners that have exceeded the maximum FICA wage.

With time left in 2018, we encourage business owners to review year-to-date results and W-2 wages and contact us to determine your maximum opportunities.

Federal Tax Credit for Employers Providing Paid Family Medical Leave

By Mary L. Shetler, CPA, CFE, Sr. Manager

Many of you have heard about the NYS Paid Family Leave Act, however there is also a new federal general business credit called Section 45S Employer Credit for Paid Family and Medical Leave added with the Tax Cuts and Job Act which provides a general business credit for employers who provide paid family and medical leave to their employers.

To claim the credit, an employer must have a written policy with the following requirements:

- Must provide for payment of at least 50% of the qualifying employee's wages.
- Must include all employees who have been employed for a year or more and make under a specific amount. ($72,000 as of 2017.)
- Minimum of 2 weeks paid leave for full time employees.
- Additional language required for employees not covered by FMLA.

The credit equals a percentage of the wages an employer pays employees while they are on paid family or medical leave. The credit is 25% of the rate of wages that you are paying with a minimum credit of 12.5% (if you were paying 50% of the employee's wages) and a maximum credit of 25% (if you were paying 100% of their wages). It applies to tax years beginning after December 31, 2017 until December 31, 2019 (unless extended). Any leave paid by NYS would not be considered for determining the credit.

For more information and to find out how the Federal Employer Credit interacts with the NYS Paid Family Leave Act, please feel free to contact our office.

Affordable Care Act Update: Looking Ahead to 2019

By Lisa M. Mrkall, CPA, MBA, Senior Manager

The impacts of the Tax Cuts & Jobs Act (TCJA) enacted in 2017 are likely to be felt, to some degree, by all U. S. taxpayers starting with their 2018 income tax returns to be filed in 2019. One provision in the TCJA that will not take effect until 2019 is the elimination of the Shared Responsibility Penalty under the Affordable Care Act (ACA) beginning January 1, 2019. Under current law, nonexempt individuals must either see that they and any of their nonexempt dependents have minimum essential coverage for the month, or pay a monthly shared responsibility penalty. The TCJA eliminates this penalty by reducing the percentage by which the excess of the taxpayer's household income over the taxpayer's applicable filing threshold is multiplied to zero. In other words, this is the elimination of the area of the ACA known as the "individual mandate." Starting in 2019, the individual mandate should no longer be a factor in your or your dependents health care planning.

The laws associated with the ACA's "employer mandate," however, have not changed with the enactment of the TCJA. Applicable large employers, (those with 50 or more full-time employees) are still required to comply with the mandate and offer affordable health insurance, providing minimum value, to 95% of their full-time employees and their dependents, or be subject to penalties.

We are very well-versed on the ACA rules and happy to assist you or your business with any questions or concerns related to the ACA!

MEALS/ENTERTAINMENT RULES UNDER THE TCJA

Under the new tax law effective January 1, 2018, entertainment expenses will need to be tracked separately in their own account. Business meals remain subject to the 50% limitation, but now include any meals provided by an employer to employees on the business premises for the employer's convenience, which were 100 percent deductible under the old rules. Under the TCJA, any employer-provided meals are now also subject to the 50% limitation and no longer need to be recorded to a separate account. A separate **"Meals"** account and **"Entertainment"** account should be created in your chart of accounts to avoid commingling these expenses so that they can be properly reported on your tax return.

ARE YOU PREPARED TO FILE YOUR 2018 1099 FORMS?

Now is the time to ensure that you have accurate information to complete your 2018 1099 forms. Click here to access the latest *Form W-9 (Rev. October 2018)* to be completed by your vendors.
If you are self-preparing your 2018 1099 forms, you can order your forms online from the IRS at Online Ordering for Information Returns and Employer Returns. The IRS also provides online a fillable Form 1099-MISC to complete and provide your vendors.

In addition to preparing your 1099 forms on your behalf, Tronconi Segarra & Associates offers E-file services for Form 1099s. As always, we are available to answer any questions you may have. Please do not hesitate to contact us.

Maria A. Doika, CPA, Manager

Year-End Came So Fast!!

By Rena M. Carrow, General Ledger Specialist

Do you say this to yourself every year?

Managing your financial records throughout the year is extremely important; however, at year end, it is even more critical. Preparing for year-end may be a stressful task, especially if you wait until the last minute. Whether you use a special software or do your bookkeeping "manually", listed are a few items to help you get started and stay on track all year long in the New Year.

Verify your 1099 information: While it may be difficult to follow up with a vendor, your ability to get in touch with them may be easier now than waiting until year-end when it's time to start preparing your 1099s. Getting in touch with a vendor in December could also prove more difficult due to holidays and vacations.

Going forward: Be sure to have your new service vendors and subcontractors complete a W-9 at the beginning of your relationship.

Reconcile accounts payable and accounts receivable: Now is the time to review you accounts receivable to determine who owes you money allowing you ample time to try and collect or clean-up uncollectible accounts before year-end. Accounts payable should also be reviewed to ensure all your 2018 expenses have been recorded and paid by their due dates. This will help to give you a clean start for the New Year.

Double-check your payroll and benefits: Correct any payroll issues before year's end. Be sure to include in your year-end W-2 forms any taxable fringe benefits (e.g. third-party sick pay and personal-use of the company vehicle).

Organize your receipts: If you are not set up with a specialized software to help scan and track your receipts, you should take some time to get your paper receipts in order before some end up in the gift-wrapping pile!

Print interim financial reports: Generate your interim Profit and Loss and Balance Sheet Statements. Take a look at these reports to see if line items make sense or if anything looks out of place. Talk to your Tax Advisor if there are any additional reports you should run or if you need assistance in reviewing your reports.

Prepare a list of questions for your tax advisor: Compose a list of questions or thoughts as you go through various items and be sure to talk to your tax advisor before year end.

Questions?

If you have questions about any of the articles or topics in this newsletter, or any other general accounting, auditing/review or tax matter, please feel free to reach out to your Tronconi Segarra & Associates advisor, or Tronconi Segarra & Associates partner, principal, senior manager or manager. An overview of our management team can be found at www.tsacpa.com.

BOOKKEEPING/GENERAL LEDGER SERVICES

Whether you are an entrepreneur preparing to launch your business, a third-generation family business, or a business somewhere in between, Tronconi Segarra & Associates can assist you in improving, supplementing or outsourcing your bookkeeping and general ledger needs.

We offer a wide range of services that you can access à la carte, or we can create a tailored package of services to suit your needs for the short or long-term. Our experienced bookkeeping and general ledger specialists will apply best practices to your business and help you with the most appropriate services and solutions you may need: setting up an accounting system with proper procedures and practices; assisting your current staff who may be backlogged or in need of additional training; or acting as your outsourced accountant/bookkeeper for whatever period of time is needed. Tronconi Segarra & Associates offers you the right amount of flexibility and resources so you can focus on serving your customers and running your business.

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PAYROLL TAX REMINDERS

New for 2019: NY Wage Reporting Requirements

Changes were made to the reporting requirements for all employers required to file:

- Form NYS-45, Quarterly Combined Withholding, Wage Reporting, and Unemployment Insurance Return, or
- Form NYS-45-ATT, Quarterly Combined Withholding, Wage Reporting, and Unemployment Insurance Return-Attachment

Effective for calendar quarters beginning on or after January 1, 2019, employers are required to complete all of Part C, Employee wage and withholding information, including columns d and e, each calendar quarter for all employees. Prior to this change, employers were only required to complete Part C, columns d and e, annually or on the last return for the calendar year. In addition, the penalty for failing to complete columns d and e was amended to allow imposition on a quarterly basis.

Reminders for 2018:

NYS Paid Family Leave:

Starting January 1, 2018, Paid Family Leave becomes a mandatory benefit in New York. This benefit will be implemented as a rider to your statutory short-term disability policy. The employee contribution is paid through payroll deductions of 0.126% of an employee's weekly wage, and is capped at an annual maximum of $85.56 for 2018. Additional details available on the NYS website at: https://www.ny.gov/new-york-state-paid-family-leave/new-york-state-paid-family-leave-employers

Overtime Rules for Exempt Employees:

New York State salary thresholds for exempt employees are as follows. Administrative and executive employees, located outside of New York City and downstate counties, must earn **$780.00** per week to be exempt from overtime pay. The exempt salary provisions provide scheduled annual increases for New York employees. Effective 12/31/18 this rate increases to **$832.00** per week. Note that different rates apply to NYC and downstate areas. More information can be found at: https://labor.ny.gov/legal/counsel/pdf/administrative-employee-overtime-exemption-frequently-asked-questions.pdf

Accelerated Due Dates for W-2s:

The due date for filing 2018 Forms W-2 and W-3 with the Social Security Administration (SSA) is now January 31, 2019. This is the same date that W-2 forms are due to the employees. Extensions of time to file Form W-2 with the SSA can be obtained by filing Form 8809. However, the IRS will only grant this extension in extraordinary circumstances or catastrophe.

The IRS has also increased penalty amounts for failing to file and furnish correct W-2 forms by the due date. Instructions for Forms W-2 and W-3 are available on the IRS website at: www.irs.gov/pub/irs-pdf/iw2w3.pdf

Affordable Care Act Reporting Requirements:

The Affordable Care Act reporting requirements remain in effect for 2018. Applicable Large Employers (ALEs) – those with 50 or more full-time employees – are required to provide information to the IRS and to their full-time employees on health plan coverage the employer did or did not offer to employees during 2018. ALEs are required to provide Form 1095 to their employees no later than January 31, 2019 and to the IRS by February 28, 2019 (if filed manually) or by April 2, 2019 (if filed electronically). Tronconi Segarra & Associates is offering this compliance service on a per-form fee basis for ALEs. If you are in need of a solution for this compliance requirement or would like to obtain a quote, please contact our office.

Additional Reminders:

- A very important reminder is to ***NOT IGNORE*** any information received from your payroll processing company regarding year-end processing. This will help them to prepare complete and accurate W-2s for your employees. It is costly to prepare the W-2 and year-end reports a second time.
- When preparing 2018 W-2 forms, or providing your payroll company with W-2 information, be sure to include all the taxable income and benefits an employee earns. Examples are:
  - Personal use of a company vehicle
  - Health insurance and dental and long-term care premiums paid on behalf of a greater than 2% S-corporation shareholder (exempt for FICA and FUTA)
  - PS-58 cost for group term life insurance benefits in excess of $50,000
  - Dependent care benefits
  - Employee pension information
- Be sure to include disability income (third party sick pay) an employee earns. It is important to report this information to your payroll processing company before year end to be included in 4th quarter reports and W-2s.
- FICA (Social Security) withholdings rates remain unchanged at 7.65%, comprised of 6.2% for Social Security and 1.45% for Medicare. The employer is required to contribute a matching amount when making the tax deposit. The self-employed rate also remains at 15.3%, comprised

of 12.4% Social Security and 2.9% Medicare. The maximum amount of taxable annual earning subject to the Social Security tax and self-employment tax is **$128,400** for 2018, increasing to **$132,900** for 2019. All earnings are subject to the Medicare tax.

- Additional Medicare Tax: Employees are also subject to a 0.9% additional Medicare tax on all wages and self-employment income in excess of **$200,000**.
- The minimum wage rate for New York state employees, outside of NYC and Long Island, for 2018 is **$10.40** per hour, increasing to **$11.10** per hour on 12/31/18.
- Minimum wage for tipped food services workers is **$7.50** per hour if they earn $2.90 per hour in tips. The rate of $7.50 per hour remains unchanged on 12/31/18 assuming the employee's tips increase to $3.60 per hour.
- Overtime for tipped workers is calculated at time-and-one-half the minimum wage rate, less the applicable tip credit. For example, the overtime rate for tipped food services workers is **$12.70** [($10.40 x 1.5) – $2.90] per hour, increasing to **$13.05** [($11.10 x 1.5) – $3.60] per hour on 12/31/18.
- Minimum wage for fast food employees, outside of New York City, is **$11.75** per hour, increasing to **$12.75** per hour on 12/31/18.
- More information on New York minimum wage rates can be found at:

  https://labor.ny.gov/workerprotection/laborstandards/workprot/minwage.shtm
- The amount that can be deducted per week for disability insurance remains at .005 of gross wages with a maximum of $.60 per week.
- The Federal unemployment base wage will remain at **$7,000** for taxable wages. The federal unemployment rate is .006. New York is not expected to have an additional credit reduction rate for 2018.
- The New York State unemployment wage base is **$11,100 and $11,400** for 2018 and 2019, respectively. New York will be notifying you of your 2019 unemployment rate by approximately February 1, 2019. If you use a payroll service such as ADP or Paychex, be sure to send them this notification.

- All new employees will need to complete and return to you:
  - **W-4** form for federal withholdings
  - **IT-2104** form for New York state withholdings
  - **Form I-9** –Employment Eligibility Verification. Be sure that you are using the current revision of this form with an expiration date of 8/31/19 Current versions can be obtained at https://www.uscis.gov/i-9
  - You are also required to provide all new employees with the **New York State Notice and Acknowledgement of Pay Rate and Payday**

- Federal tax deposits: If you are NOT using a payroll service for payroll tax deposits, you will need to enroll your business and make payments electronically. Information on Electronic Federal Tax Payment System (EFTPS), including how to enroll, can be found at https://www.eftps.gov/eftps/ or by calling EFTPS Customer Service at 1-800-555-4477.
- Mileage Rate for 2018: 54.5 cents per mile, up from 53.5 cents per mile in 2017.

FORM 1099 REMINDER

Accelerated Due Dates for 1099-MISC with Non-employee Compensation:

Form 1099-MISC must be filed with the IRS, on or before January 31, 2019, when you are reporting nonemployee compensation payments in box 7. Otherwise, file by February 28, 2098, if you file on paper, or by April 2, 2098, if you file electronically. The due dates for furnishing payee statements is January 31st.

The IRS is advising that 1099-MISC forms with box 7, nonemployee compensation payments, be filed with a separated Form 1096 Transmittal, rather than including them with 1099-MISC forms that report other miscellaneous income.

Additional Reminders:

The Internal Revenue Service requires anyone engaged in trade or business to file Form 1099. Please confirm that all ID numbers and Social Security numbers are accurate before completing your 1099s. The IRS can charge a penalty of $260 for each return that is incorrect or incomplete.
You must file Form 1099 for each person, to whom you have paid during the year:

- At least $10 in royalties or broker payments in lieu of dividends or tax-exempt interest;
- At least $600 in rents, services (including parts and materials), prizes and awards, other income payments, medical and health care payments, crop insurance proceeds, cash payments

for fish (or other aquatic life) you purchase from anyone engaged in the trade or business of catching fish, or, generally, the cash paid from a notional principal contract to an individual, partnership, or estate;

- Any fishing boat proceeds;
- Gross proceeds of $600 or more paid to an attorney; or
- At least $10 in dividend/capital gains that were paid on stock or interest income.
- **Reportable Payments to Corporations –** In general, payments to corporations do not need to be reported on a 1099. However, the following payments made to corporations generally must be reported.
  - Medical and health care payments
  - Fish purchases for cash
  - Attorneys' fees
  - Gross proceeds paid to an attorney
  - Substitute payments in lieu of dividends or tax-exempt interest
  - Payments by a federal executive agency for services

- **Form 1099-K -** Payments made with a credit card or payment card and certain other types of payments, including third-party network transactions, must be reported on Form 1099-K by the payment settlement entity, and are not subject to reporting on Form 1099-MISC.

E-filing is mandatory if a client is responsible for filing 250 or more information returns. The 250 limit applies separately to each Form.

Tronconi Segarra & Associates is now offering E-file services for Form 1099s. Let us know if you would like us to E-file your Form 1099s.

As always, we are available to answer any questions you may have. Please do not hesitate to contact us.