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THE TAX AND JOBS ACT OF 2017 EFFECTIVE FOR 2018 TAXES

On December 22, 2017, President Trump signed a new law with the most extensive and far-reaching changes to the tax code since the Tax Reform Act of 1986.

These changes generally take effect starting January 1, 2018 so the returns we prepare for you for 2017 will be prepared using the old tax laws.

There will probably be a technical corrections bill sometime in 2018 that may change some of the law due to mistakes, oversites or unforeseen results. And the regulations that further define sections of the law are not out yet so some details of the law still need to be clarified.

Kallas has boiled the law down to the provisions that most effect restaurant and bar owners. For the most part you should be very happy. One of the provisions (the 20% small business deduction) will be a huge benefit to small businesses of all kinds.

**CHECK WHICH
PROVISIONS AFFECT
YOU**

Based on what we know now, here are the highlights:

- **This is a very business-friendly law with many provisions that will be a MAJOR help to restaurant and bar owners.**
- **The vast majority of the changes are beneficial to taxpayers and even though some changes will tighten or eliminate deductions the over-all result is that most taxpayers will see a lowering of their taxes.**
- **The law is not simple. It is very complicated with more thresholds, phase-outs, limitations, tests and definitions than ever before.**
- **Some provisions that expired December 31, 2016:**
 - **Forgiveness of debt on a principal residence now becomes taxable.**
 - **You may no longer deduct tuition or mortgage insurance.**

- Tax credits for empowerment zones, energy property and others are discontinued.

- With the changes to depreciation rules and the 20% deduction for small business in conjunction with the thresholds and limitations that apply, you will have more control of your yearly tax bill. This makes it imperative for 2018 and future years, that business owner's work with their tax expert to project their income at least one year in advance. This is a huge potential benefit to

ALL OTHER FACTORS BEING EQUAL, A SINGLE TAXPAYER WITH INCOME OF \$82,500 WILL PAY \$2,274 LESS IN TAXES IN 2018 JUST DUE TO THE LOWERING AND WIDENING OF THE BRACKETS.

- The personal exemption is eliminated until the year 2025. The standard deduction is almost doubled and indexed to inflation. The increased standard deduction will reduce the need for many taxpayers to itemize. The Kiddie tax which forced taxpayers to tax their children at their higher rate is changed to allow separate rates for children.
- Capital Gains rates remain the same as do the 3.8% Net Investment tax and .9% Additional Medicare Tax for high income taxpayers.
- The Child Tax Credit is doubled to \$2,000 per child and the phase-out range increases from \$110,000 to \$400,000. This will allow more taxpayers to take the credit. The fully refundable portion of the credit goes from \$1,000 to \$1,400.
- The 3% of income reduction of itemized deductions is eliminated allowing more of your itemized deductions to reduce tax liability. On the negative side, state and local income tax, sales tax and property tax deductions are limited to \$10,000.
- Mortgage interest on a home equity loan is no longer allowed and any mortgage interest for principle and 2nd residences is not allowed for new mortgages exceeding \$750,000 beginning in 2018.
- The personal casualty and theft loss is not allowed except for Federally declared disasters.
- For any divorce or separation agreements entered into after December 31, 2018, alimony is no longer deductible by the payor and nor is it income to the recipient. This will change divorce planning significantly.
- Moving expense deduction is suspended and the exclusion from income for employee moving reimbursements is suspended.
- The Alternative Minimum tax exemption is increased as is the exemption phase out.
- The penalty tax for not having health insurance is reduced to zero for years after 2018. This means that the penalty still applies to 2017 and 2018 tax returns.
- The Estate tax exemption is doubled and tied to inflation. The exemption for deaths in 2018 is \$11,200,000.
- A newly created 20% deduction of Qualified Business Income is allowed for Sole Proprietors, Partnerships and S corporations. It is calculated as 20% of business income below certain thresholds and applied against taxable income. Limitations apply. See more about this huge business benefit later in this newsletter.
- The corporate tax brackets which started at 15% and went as high as 38% are replaced by a new flat rate of 21%. This is a huge benefit for corporations with very high taxable income. For example a corporation with \$15 million in profits would save \$2 million in taxes.
- Bonus depreciation allowance is increased from 50 percent to 100 percent and now can be applied to new and used furniture, fixtures and equipment.

- The amount of section 179 property that can be expensed is increased to \$1,000,000 and definitions have been expanded to include additional types of property.

2017 TAX SEASON IS HERE

The 2017 tax season is upon us. And as usual, it means finding bills, accumulating paperwork, thinking about everything you did last year and trying to figure out ways to keep that darn tax bill to a minimum.

Our goal is to make sure you do not pay Uncle Sam any more than necessary.

As a business owner, there are ways of presenting information, making judgments and using tax laws to lower your tax bill. We have the experience to make use of all the techniques that are available and we work very hard to keep your taxes low.

And we never forget to use our experience and judgment to keep you out of dangerous areas of tax law.

This year, Nick Kallas, Karen Walega, Chat

Wickramarachchi and I will be preparing your personal taxes. Jim Humenik, Cathy Infantado, Dan Wilson, Anthony Gawel and Chris Brinkel will be preparing your business taxes.

You can keep your tax preparation costs down and help us to identify potential tax savings by answering the questions on the tax organizer as completely as possible. Along with the organizer, you should be submitting to us all W-2's, 1099's, closing statements on purchases or sales of real estate, mortgage interest statements and broker statements.

You can also help us by mailing your information early. Remember, we know you and your situation very well. Most questions can be answered over the phone and by mail.

**OUR GOAL IS TO
KEEP YOUR TAXES
LOW.**

We will be offering again this year the option of receiving your tax returns via a private, secure web portal. You simply log on, review the return or print a copy at your convenience.

Whether you prefer an on-line version or a physical copy, you will have an opportunity to review the return. If everything looks good, you will sign a one-page authorization and mail it

**YOU CAN HELP US
AND ALSO KEEP YOUR
TAX PREPARATION
COST DOWN BY
ANSWERING THE
QUESTIONS ON THE
TAX ORGANIZER AS
COMPLETELY AS
POSSIBLE.**

back to us with payment of fees. We then E-file your return.

No more need to rush to the Post Office on April 15 and your refund will get to you about 4 weeks quicker.

Please remember, the more organized your data, the less we have to

INSIDERS REPORT DIGITAL COPY OPTIONS!

WE MAY NEED YOUR EMAIL ADDRESS

The Kallas newsletter is being e-mailed to clients and we are getting a lot of positive feedback.

Clients have been finding the ease of access extremely beneficial. Because it's on-line, you can

read it whenever you have some time to spare without worrying about carrying a paper copy.

If you haven't been getting your digital newsletter call Dawn at (313) 962-6000 or email her djankowski@kallascompany.com to sign up.

Our goal is to have as many clients as possible using the digital newsletter by August 2018.

The newsletter is also still available 24-7 on the KallasCompany.com website.

**IF YOU HAVEN'T BEEN
GETTING YOUR DIGITAL
NEWSLETTER CALL
DAWN AT 313-962-6000**

Calendar for March, April, May 2018

March 15

- **Corporations:** File Form 1120 or Form 1120S for 2017 calendar year and pay any tax due. For automatic 6-month extension, file Form 7004 and deposit estimated tax.
- **Corporations:** Furnish a copy of Sch. K-1 to each shareholder.
- **Corporations:** Estimated Taxes due for corporations with fiscal year ending March, July, September or December.
- **Corporations:** File Form 2553 to elect to be treated as an S Corporation.
- **Payroll:** If you are a monthly depositor, your Federal coupon and taxes should be paid on-line.

March 20

- **Michigan Sales, Use tax due.**

March 31

- **Payroll:** Electronically file Forms W-2, W-2G, 1098, 1099, and 8027.

April 15

- **Payroll:** If you are a monthly depositor, your Federal coupon and taxes should be paid on-line.
- **Individuals:** File 2017 Form 1040, 1040A, or 1040EZ. For automatic 6-month extension, file Form 4868 and deposit estimated tax.
- **Individuals:** Pay the first installment of 2018 estimated tax.
- **Partnerships:** File 2015 Form 1065 and furnish a copy of Sch. K-1 to each partner.
- **Corporations:** Deposit the first installment of your estimated tax for 2018.
- **Corporations:** Taxes due for January year end corporations.
- **Corporations:** Estimated Taxes due for corporations with fiscal year ending January, April, August or October.

April 20

- **Michigan Sales, Use tax due.**

April 25

- **UIA form 1020 due for 1st Quarter.**

April 30

- **Employers:** File Form 941 for the first quarter.
- **Deposit FUTA tax** owed through March if more than \$500.
- **Liquor License renewal forms and fees due.**

May 10

- **File Form 941** for the first quarter of 2018 if you timely deposited all required payments.

May 15

- **Corporations:** Taxes due for February year end corporations.
- **Corporations:** Estimated Taxes due for corporations with fiscal year ending February, May, September or November.
- **Payroll:** If you are a monthly depositor, your Federal coupon and taxes should be paid on-line.

May 20

- **Michigan Sales, Use tax due.**

WE DON'T JUST PREPARE YOUR TAX RETURNS

Throughout the year we pick up new clients - many from other accountants. We always review the prior work to see if there is anything that was missed or can be done to better your situation.

One of the recurring things we notice is that many accountants and tax preparers simply throw the numbers together and don't think about how they affect you.

We work at a higher level than that. We do a full assessment every time we prepare a return for you.

We look at many items - not only to lower your taxes but to keep you out of the **RED FLAG** danger zone.

For instance:

- We look at the audit potential of your return as to individual items and as a whole.
- We take into account your nature and personality as to how aggressive you want us to be.
- We review your financials before the returns are prepared to look for any unexpected numbers or ratios that may be a red flag.
- We review your tax basis and other technical issues to make sure that your losses do not get limited.
- We recommend moves you can make to take advantage of expenses or losses you would not be able to take ordinarily.
- We organize your return and your businesses to take advantage of all the credits, deductions and losses we can.
- We make recommendations or perform tax planning services when we see opportunities

"Failing to plan is planning to fail."

IMPORTANT TO GET CORRECT SOCIAL SECURITY NUMBERS

PENALTIES ARE SEVERE

There have been a rash of police investigations of restaurant workers with phony social security numbers. Not obtaining a social security number from anyone you hire could result in very costly penalties. The Michigan Unemployment Office issues a \$500 penalty per quarter for missing or incorrect social security numbers and continues the penalty until the error is corrected. There is no waiver on this penalty and if it is not corrected (an employee leaves and cannot be reached) the penalty would be assessed each quarter resulting in potential thousands of dollars in penalties. The IRS also issues W-2 penalties for missing social security numbers.

PROTECT YOURSELF:

- Never hand out a paycheck unless you have all the employee information.
- Make sure the payroll service has correct employee information before they cut a check.
- Create a file for every employee you hire containing at a minimum the W-4 form and I-9 form.
- Request photo ID for everyone you hire

SAVE MONEY IF YOU HIRE WORKERS UNDER THE AGE OF 18

If you hire minors (under age 18) you may be able to reduce your federal FICA, federal unemployment tax and state unemployment tax.

To get this benefit, let Kallas know when you hire a minor and you need to give us their birthdate. We will keep track of the minor's earnings and give you the benefit until they reach age 18.

CALL EARLY FOR YOUR TAX APPOINTMENTS

TAXES CONSUME THE BIGGEST PORTION OF MOST PEOPLE'S CURRENT EARNINGS AND FUTURE RETIREMENT

Our job at Kallas Company is to help you maximize tax savings and help you create future wealth. For the greatest savings over time you need to plan ahead. Call us before you sell stocks, sell your business, buy a business or make any substantive changes to your financial situation.

By now you should have received your 2017 tax organizer. If you have not received your tax organizer, call our office for another one. The tax organizer helps you organize your tax information and allows us to receive your information in such a way as to help us find tax savings for you. If you need help completing it or would like an appointment, call Dawn at 313-962-6000. Tax interviews prior to March 15 are \$90 per hour. After March 15 they are \$120 per hour.

Thank you again for your continued patronage. Remember, if you send us a new business or tax client you receive a gift certificate worth \$100 towards any accounting or tax services. In the years that we have had the gift certificate

ACA FILING DEADLINES EXTENDED

On December 22, 2017 the IRS announced an ACA filing deadline extension. The due date for furnishing employees with Form 1095-C is extended from January 31 to March 2. In addition, the IRS extended Good Faith Transition Relief for 2017 returns. This relief allows a business that is required to file under ACA rules, potential waiver of penalties if that business made a good faith effort to file properly but made mistakes or misinterpreted the law.

The Good Faith Waiver is only applicable if the business made a good faith effort. It does not apply to businesses that failed to file or ignored the law.

TAX PLANNING MORE IMPORTANT THAN EVER

THROW AWAY YOUR OLD THINKING ON TAXES!

Tax planning is more important than ever! Small businesses can reduce their tax bills significantly with huge opportunities if planned properly!

The new tax law which begins January 1, 2018 includes many opportunities and significant benefits for small businesses. The law fundamentally changes many of the tax planning ideas and techniques we have used for years and substitutes new ones in their place. Whatever you used to think your tax liability would be, needs to be re-thought.

The law is complicated, though, with many factors that could alter your tax bill substantially. To make the most of this opportunity, restaurant and bar owners will need to project their earnings at least one year in advance.

The new 20% deduction created under this law for small business is a powerful tool for tax planning. But must be considered in the context of the new depreciation rules and earnings thresholds. In addition, there are limitations and criteria which could reduce or eliminate the benefits.

In this new world, computer simulations projecting your income at least one year in advance is the only way to plan properly. If done right can save you thousands.

"Insiders Report" is intended as an informational tool for Restaurant and Bar owners. "Insiders Report" is a quick source for new and changing tax laws, legislation and practical management strategies the restaurant and bar owner need in today's highly competitive food and beverage service industry.

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