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GREETINGS DEAR TAX CLIENT:

We hope you have all had a good holiday season. Now is the time to think about Tax Season. The passage of the Tax Cuts and Jobs Act December 2017 made major changes to the tax code. Some experts say this law represents the greatest number of changes in the last 30 years! But, we will get to that after I introduce our 2019 Tax Team of Stars!

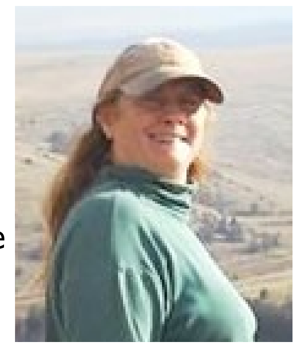
Cissy (Shannon) Shelton has been preparing tax returns and doing all aspects of accounting for three decades. Cissy is our payroll and tax expert that the team looks to for

leadership and answers. If you are lucky, you might catch **Tracy Frei** in the office, assisting with training and all kinds of support work. While she mainly works off-premise, she continues to do a great deal of

work and remains a valued member of our team. **Melissa Wight** is entering her 18th tax season. Melissa works many hours preparing 1099s, organizers and tax estimates in December and January. She then serves clients kindly

and enthusiastically through the rest of the season preparing taxes. Melissa helps keep the team on track. We would be lost without her. **Linda Estes** has returned to the upstairs after spending a season in quality control in

the basement. Linda is upbeat and fantastic in assisting clients with their accounting and tax needs. **Kristen Brockamp** is returning for her fourth tax season. Kristen is a jack of all tax returns, as well as an accomplished accountant. Kristen keeps us calm with her even, pleasant spirit! **Karen Wurdinger** is our front office leader. She keeps the tax files organized, processes returns, assists clients and handles our electronic filing. Being the final person in our tax process, Karen completes the filing



efficiently and accurately. If you arrive at just the right time, you might see **Conley Didier** coming up the basement stairs. He is entering his third year as part of our quality control. We tease him that he likes the basement so much since there is less estrogen there! Conley works diligently to ensure accuracy in our work. **Jeanette Hibbert** also works in the front office. She is the hub of our group, directing phone calls and clients all the while doing payroll and accounting work. You will feel her warmth on every

phone call and on every visit. **Eric Arnoldus** rounds out our team this year. He has been a licensed practitioner since 1989, and brings a wealth of tax knowledge and client service experience with him. He will be part-time this year, moving into full-time tax work in 2020. We are excited to welcome Eric.

This is a dedicated, talented, experienced, upbeat group of people. I get 165 when I add up the tax seasons this group has worked. We care about you, about doing the job right and about supporting each other through the tax season process. I am blessed and thankful every day for each and everyone of them on this amazing Silver Creek Financial Services team. We are all looking forward to seeing you. *Cathy & Crew*

WHAT IS ENCLOSED

We are enclosing either an update form **or** an organizer with this letter, as well as your engagement letter. Please note the short list of items you will need to provide, if you have them. If you did not receive an organizer and would like to have one, please call us and we will get one to you right away.

INDIVIDUAL TAX UPDATE

We do not yet know when we can start e-filing tax returns, the IRS has yet to announce this date. The filing deadline for individual tax returns is April 15, 2019. Due to federal law, taxpayers with earned income and additional child tax credits are going to have their refunds delayed until mid-February.

The majority of the following tax provisions are effective beginning in 2018 and currently extend through 2025. There will be many changes before 2026.

The **shared responsibility penalty** is assessed on taxpayers who do not have health insurance in 2018. In 2019, this penalty becomes zero. There is still the process of reconciling advanced premium tax credits which reduce health insurance premiums on the tax return. This last item can either result in more tax due or more tax paid toward the individual's tax return. The shared responsibility penalty continues to be the <u>greater</u> of (1) $695 per person (to a maximum of $2,085 per tax family) or (2) 2.5% of the household income minus a filing threshold, which varies by filing status and age. Please provide any 1095 forms that you receive.

1099s and W-2s are required to be electronically filed by January 31st. IRS imposes penalties when these forms are not filed timely. Oregon can completely deny deductions when appropriate 1099s are not filed. We are always happy to help with filing these forms.

The **tax rates and tables** have changed. The six individual tax brackets have expanded with lower rates in all but one of the six brackets. This change will reduce tax for most taxpayers. However, due to a change in the tax withholding tables, less federal tax was withheld from employees' paychecks. We anticipate we will see less withholdings on W-2 forms which will result in lower refunds or higher amounts due for employees.

Personal exemptions are now zero. **Standard deductions** are increased to $24,000 for married filing jointly, $18,000 for head of household, $12,000 for single and married filing separately.

The **child tax credit** has doubled in 2018 to $2,000 per qualifying child under age 17. There is a new credit of $500 for children 17 and over as well as other dependents on the taxpayer's return. There is a slight change to qualifying dependents, as they must now be citizen or residents of the USA.

There have been big changes made to the **kiddie tax**. Children with unearned income (interest, dividends, rents) exceeding $2,100 who have at least one parent alive and are either under 18, or 18 and do not provide for over 1/2 of their own support, or 19 to 23 and full time students who do not provide over 1/2 of their own support. If the parent does not include the child's income in their return, the child will pay tax on their unearned income at the higher trust rates.

Congress has added the **head of household filing status** to a growing list of due diligence areas where tax professionals have to ask more questions to avoid preparer penalties and to ensure those claiming this filing status qualify. Be prepared for more questions from us if you are filing as head of household.

The **standard mileage rate** increased to 54.5¢ for 2018 and then to 58¢ for 2019. The medical mileage rate is 18¢ for 2018, then increasing to 20¢ in 2019. The charitable mileage rate remains at 14¢. This rate cannot change without congressional action.

Alimony which is awarded in divorces after December 31, 2018 will no longer be deductible by the payer and taxable to the recipient. <u>Alimony ordered through earlier</u>

divorces remain deductible by the payer and taxable to the recipient.

Moving expenses are no longer deductible except for military active duty taxpayers.

We have higher **IRA contribution limits** in 2019. These are $6,000 with an additional $1,000 for those taxpayers 50 and older. There are also higher income limits for deductible traditional IRA and allowable ROTH IRA contributions

A special provision has been in the law for several years which allow **taxpayers over 70.5** to arrange for distributions to be made directly from the IRA trustee to a charitable organization. With fewer people able to itemize deductions, this law allows for these distributions to be made tax free.

Medical expenses are subjected to a floor of 7.5% of adjusted gross income. This floor rises to 10% in 2019.

All **state and local taxes** are limited to a maximum deduction of $10,000. This includes state income or sales tax (whichever is larger), property taxes, local and foreign income tax.

Home mortgage interest deductions have also changed. Only interest on acquisition debt is deductible. This type of debt happens when the funds are used to buy, build or improve the home. The debt must also be secured by that home. Previously, we were allowed to deduct interest on equity indebtedness. This type of indebtedness is on debt that was used for non-home expenditures, such as buying cars, paying off credit cards, college education, or other personal items. We will have to separate these two types of debt when a mortgage contains both types of debt in order to determine the deductible mortgage interest. The debt limit has been reduced from $1,000,000 to $750,000 for mortgages taken out after 2017. Prior mortgage retain the $1,000,000 debt limit.

Miscellaneous itemized deductions are no longer deductible. This category includes such things as unreimbursed employee business expenses, tax preparation fees, investment advisory fees, union dues, safe deposit box fees.

Qualified **529 Plan distributions** now include up to $10,000 of expenses for tuition in connection with elementary or secondary schools. This includes public, private and religious schools.

BUSINESS TAX UPDATE

C Corporation taxes rates are now at one level, 21%.

Section 179 expensing increased from $500,000 to $1,000,000 for businesses with purchases in the year of less than $2,500,000. It now includes HVAC systems, roofs, fire protection and alarms and security systems. The taxpayer can choose whatever amount of the qualifying purchase price to deduct in the year of purchase.

Bonus depreciation is allowed for 100% of the purchase of new and used business property. This deduction is not limited by business income. However, it is all or nothing. Taxpayers can elect to not use bonus depreciation and choose section 179 expensing or regular depreciation instead.

1031 exchanges have been eliminated for trades of personal property. 1031 exchanges of real property continue to be allowed. This means when a piece of equipment is traded in on another piece of equipment, this will show on the tax return as sale of the old piece of equipment for it’s trade in value, and a full purchase price on the acquired one.

Net operating loss carrybacks are no longer allowed. They may only be carried forward indefinitely. They will also only offset up to 80% of taxable income. Farm losses are an exception to the carryback rules. They are allowed to be carried back two years. The elected five-year carryback of NOLs of farms is no longer available.

The limit for **taxable estates** has doubled for federal purposes to $11.2 million.

On premises meals provided for an employer are no longer 100% deductible; they are deductible at 50%.

New farm equipment is depreciated over five years instead of seven beginning in 2018. Used farm equipment is still depreciated over seven years. Used and new property with a depreciable life of under 15 years is now depreciated under the normal 200% declining balance method, instead of being limited to the 150% declining balance method.

New Section 199A deduction. The basics of this complicated deduction are taxpayers may be allowed to reduce their taxable income by 20% of the net income from qualified businesses. This has many limitations. The first limitation is 20% of the taxable income without capital gains and the qualified business deduction. There are also limitations for taxpayers whose taxable income exceeds $315,000 married filing jointly or $157,500 for all others. When taxpayers exceed this level of income, there are additional limitations which involved a determination of specified service trades or businesses, wages and the cost of depreciable property. There are many rules to this whole body of law. We have been taking classes and studying the new law to be ready for tax season! This new law replaces the former domestic activities production deduction.

Oregon Changes. Oregon has specifically excluded the Section 199A deduction from our Oregon calculations. However, it has extended a **reduced tax rate to sole proprietorships** that had formerly only been given to partnerships and S Corporations. To qualify, the reduced tax rate has to be elected on the return, the owner, partner, shareholder or member has to be actively involved in the business, and the business must employ at least one non-owner for at least 1,200 hours during the year. The **special medical deduction** is now limited to taxpayers who are 65 and older. This age limit has changed through the years, but is scheduled to remain at 65. Even though federal no longer allows unreimbursed employee travel, Oregon still allows a deduction for **construction workers and logger commuting expenses**. To qualify, the employee has to work more than 50 miles from home. Construction workers can only take this expense for the first year on a job and have to be a member of a recognized union. Loggers have to be either fallers or buckers paid on a per-unit-cut basis. Both are limited to actual auto expenses. The **federal tax liability subtraction limit** has been increased to $6,650 ($3,325 for married filing separately). We have a new Oregon tax called the **Statewide Transit Tax**. Employees who work in Oregon and those Oregon residents who work outside of Oregon are required to pay one-tenth of one percent of wages to Oregon. Employers outside of Oregon are not required to withhold this tax, so we have a new form to pay this tax with which has to be mailed in and paid separately. This tax is to help fund public transportation services in Oregon.

MILEAGE DEDUCTION INFORMATION

If you claim mileage deductions for business, medical or charitable purposes, please use the 2018 mileage deduction information form included with this letter. As preparers, we continue to be required to verify that the taxpayer has written documentation for mileage expenses.

The mileage logs need to record (on a timely basis) the beginning and ending odometer readings for the year, as well as the number of business miles driven each day and the business purpose of these travels. We are happy to provide calendar books for your use. Just let us know if you would like one.

HOW TO HANDLE AN IRS OR STATE LETTER

First of all, don't panic. Simply responding to most notices will resolve the situation. Secondly, don't ignore the letter. Each letter deals with a specific issue and contains some instruction on what to do. Be sure to respond timely. If the letter makes changes to the originally filed return, be sure to look at the changes to make sure they are correct. Just because the government thinks the changes are accurate, does not mean they are. Always keep copies of the letter and your response. The IRS and Oregon will never initiate contact using social media or text messages. They also will not call on the telephone unless you have already had regular mail correspondence. We are always here to help, and can perform all these jobs for you. Just let us know.

PRIVACY ACT NOTICE

Under the Gramm-Leach-Bliley Act of 1999, tax advisors and accountants (among others) are required to notify their individual customers of their privacy policies. We do not share nor disclose any information about any of our customer's nonpublic personal information to any non-affiliated third parties without prior consent. In other words, we do not sell any of your information to anyone. We collect only the information that is required to prepare a complete and accurate income tax return for our income tax clients, or a complete and accurate set of books for our accounting clients. We maintain appropriate physical, electronic, and procedural safeguards to protect the security and confidentiality of your nonpublic personal information. We educate our employees about the terms of this notice and the importance of customer privacy. We restrict access to nonpublic personal information about you to those employees who need to know that information to provide the service you have requested. **YOUR PRIVACY IS IMPORTANT TO US!**