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GREETINGS FROM THE ALL-STAR TEAM:

Cissy (Shannon)

Shelton has been such an important part of our team for decades. She does all aspects of our tax returns and accounting. I can't think of Silver Creek without Cissy as part of it.



While you won't find

Tracy Frei in the office very often, she is working diligently from home and supporting the team in so many ways. She sorts our box jobs and handles accounting clients very efficiently as she has done



for over 20 years. We often comment on her lightening fast data processing skills. **Melissa Wight** is our queen of 1099s and organizers early in the season, then produces a ton of taxes through the regular filing season. Being one of our



senior staff members, Melissa is not only invaluable to clients, but to the rest of us as well. Clients love **Linda Estes**. Linda returned to full-time, year-round work this year after she had dropped to part time to help with family issues.



Linda enthusiastically performs her payroll, accounting and tax preparation duties. You won't find a more even-tempered pleasant person than **Kristen Brockamp**. Kristen works on all kinds of tax returns, growing in



knowledge and skill each year. As with other members of the team, she loves a puzzle and a good challenge. **Karen Wurdinger** is our Business Operations Specialist. She does her best to keep us all headed in the right direction by organizing tax files,



processes returns, greeting and assisting clients, answering the phone, and handling our electronic filing. She also is helping with payroll and accounting. Our best dressed fella is **Conley Didier**. He is part of our quality control where he works diligently to ensure we have



done our tax work accurately and completely. He works quietly and efficiently so we all do the best we can. Every office needs a person like **Jeanette Hibbert**. Jeanette warmly greets clients on the phone and in person, making them feel



welcome. She is the heart of our team and supports us in all ways possible, while doing payrolls and other accounting tasks. **Eric Arnoldus** is a well-seasoned tax practitioner who enjoys meeting our client's needs. Eric especially



enjoys working with new businesses. He is extremely dedicated, intelligent and easy to work with. Finally, I am **Cathy Johnson**, and I fancy myself the leader of this truly amazing All-Star Team of accounting and tax professionals. I am often humbled by their service, and am deeply grateful they



choose to work at Silver Creek. We care about you, about each other, and about doing accurate, complete work for you.

As we begin our 43rd year, we want to thank you for making this long journey possible. We would not be in business if it weren't for you. Thank 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

The IRS has yet to announce the date we can begin filing tax returns due to the December 20, 2019 passage of tax law. The filing deadline for individual tax returns is April 15, 2020. Due to federal law, taxpayers with earned income and additional child tax credits are going to have their refunds delayed until mid-February.

The **shared responsibility penalty** is \$0 for taxpayers who do not have health insurance in 2019. However, those who have advanced premium tax credits reducing their health insurance premiums will still be required to reconcile these on their tax returns. This can either result in more tax due or more tax paid toward the individual's tax return. 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 **standard deductions** are increased to \$24,400 for married filing jointly, \$18,350 for head of household, \$12,200 for single and married filing separately.

2018 made several changes to the **kiddie tax**. Children with unearned income (interest, dividends, rents) exceeding \$2,200 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 or can choose to use the top tax rate of the child or the parent.

The **standard mileage rate** increased to 58¢ for 2019. The medical mileage rate is 20¢ in 2019. The charitable mileage rate remains at 14¢. The IRS has not yet announced the mileage rates for 2020.

Alimony which is awarded in divorces after December 31, 2018 will no longer be deductible by the payer and taxable to the recipient. Alimony ordered through earlier divorces remain deductible by the payer and taxable to the recipient. If an order is changed in a divorce decree before January 1, 2019, the parties have to agree if the payments are deductible and taxable.

We have many changes regarding IRAs. We have higher **IRA contribution limits** in 2019. Qualifying individuals can contribute \$6,000 with an additional \$1,000 for those taxpayers 50 and older.

New law now allows qualifying taxpayers of any age to contribute to traditional IRAs. **Required minimum distributions** are now required in the year taxpayers reach **age 72** instead of by April 1 of the year after they attain age 70.5. Taxpayers who are already 70.5 are required to continue with their required minimum distributions. **Non-spousal beneficiaries** can no longer spread new distributions beyond **10 years**. Formerly, they were able to spread them over their lifetime. **Qualified birth or adoption distributions** from IRAs and electing 401(k)s are taxable, but not subject to the 10% early withdrawal penalty.

The special provision in the law which allows **taxpayers over 70.5** to have distributions made directly from their IRA trustee to a charitable organization has been modified. This type of transfer meets the required minimum distribution requirements and avoids taxation of the distribution. However the preferential tax treatment of the IRA to charity transfer has to be reduced by any deductible traditional IRA contributions made

after the taxpayer reaches age 70.5. This reduction is tied to the ability for all qualifying taxpayers to make traditional IRA contributions, regardless of age.

Medical expenses are subjected to a floor of 7.5% of adjusted gross income. This floor was set to rise to 10% in 2019, but congress has reset it to 7.5%.

All **state and local taxes** continue to be limited to a maximum deduction of \$10,000.

Only **Home mortgage interest deductions** on acquisition debt is deductible. This is the debt incurred to buy, build or improve the home. The debt must also be secured by that home.

Miscellaneous itemized deductions continue to be non-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** can now be used for the normal expenses for fees, books, supplies and equipment required for **apprenticeship programs** certified by the Secretary of Labor, and **homeschooling**. Up to \$10,000 of each taxpayer's Qualified 529 plan distributions can be used to **repay an education loan** of the taxpayer or a sibling! This is a lifetime limit per taxpayer.

Failure to file fees are increased to the lesser of \$435 or 100% of the amount of tax due.

EXTENDED PROVISIONS

Congress has extended provisions not only through 2020, they have extended them for 2018. At this time, the only way to take advantage of the provisions for 2018 is to amend that return. I do not remember ever seeing tax provisions being extended a year after they are effective. Here we go:

Mortgage insurance premiums are deductible as itemized deductions.

Cancellation of qualified principal residence indebtedness is not subject to income tax.

Tuition and fees deductions which are not used for education tax credit purposes can be used as a deduction in many cases.

Nonbusiness energy property such as qualifying windows and doors and insulation will again receive a 10% tax credit. The total

credit that can be taken for expenditures taken through recent years cannot exceed the \$500 limitation.

BUSINESS TAX UPDATE

C Corporation taxes rates continue to be at one level, 21% for federal, 6.6% to 7.6% for Oregon.

Section 179 expensing increased from \$1 million to \$1.02 million for businesses with purchases in the year of less than \$2.55 million. This expense is limited to income on the tax return and taxpayers can choose the amount they wish to deduct. **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.

Net operating loss carrybacks are no longer allowed except for farms. NOLs 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 limit for **taxable estates** has increased for federal purposes to \$11.4 million. However, Oregon remains at \$1 million.

All qualified business meals are only deducted at 50%.

Section 199A deduction. 2019 is the second year of this 20% business income deduction. There are many rules and limitations. Rentals can also qualify if: (1) the taxpayer and their subcontractors have 250 hours or more of work, (2) these hours are documented, and (3) the property or properties are not triple net leases.

OREGON CHANGES

Corporate Activity Tax Oregon has a new sales tax called the CAT. It is imposed on all businesses doing business within Oregon (not just corporations) which have sales in excess of \$1 million. Businesses are required to register within a month of when their sales reach \$750,000. The tax is only assessed when the \$1 million mark is

reached and is \$250 for the first \$1 million, then .57% for income above that level. The income is reduced by 35% of the cost of goods sold or labor, whichever is larger. Some of the sales which are exempted from the CAT are groceries, motor vehicle fuel, sales collected for another, and capital assets. There are many rules on this new provision, a great deal of which have not been developed yet.

Due to CAT, 2020 personal income tax rates have been reduced by .25% for all brackets except 9.9% bracket.

Employees are required to complete an **Oregon W-4** beginning in 2020.

Oregon businesses selling into other states are required to collect and pay sales taxes to those other states when certain sales levels are attained due to the US Supreme Court decision in **South Dakota v. Wayfair**. The sales level in Washington is \$100,000, Idaho is \$100,000 and California is \$500,000.

The **Oregon kicker** is 17.171% of the 2018 Oregon tax liability. A "What's my kicker" calculator will be available online from Oregon Dept of Revenue. An election can be made to donate the kicker to the Oregon State School Fund. Be aware, it is irrevocable once made.

The **special medical deduction** is now limited to taxpayers who are 65 and older. This age limit changes in 2020 to 66 and is scheduled to remain there.

MILEAGE DEDUCTION INFORMATION

If you claim auto deductions for business, medical or charitable purposes, please use the 2019 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 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. This information need to be recorded close to the time of the travel. We have calendar

books for your use. If you haven't received one yet, and would like to, just contact us and we will get one to you.

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!**

