CRAFT, NOBLE & COMPANY

Welcome to Craft, Noble and Company's e-news update.

The dust has settled on another tax season! Thank you to all of those who let us serve you income tax needs this year, we appreciate each and every one of you. Here's the most current news for you. If you would prefer to receive a print copy of each e-newsletter, please call our office to place that request.

Be sure to follow us on social media for regular updates on changes in tax law, accounting concepts, firm news, and some fun. We are on Facebook, Twitter, and LinkedIn so be sure to check us out and stay connected year-round.

Likewise, if you know a friend or colleague who might be interested in receiving this e-newsletter, just click the "Forward to a Friend" button. Privacy and confidentiality is a hallmark of our business, so you can be assured your name or address will not be shared with anyone.

You Know You Need Tax Planning If…

Effective tax planning helps you make smart decisions now to get the future outcome you desire - but you need to make sure you don't miss anything. Forget to account for one of these situations and your tax plans will go off the rails in a hurry:

1. **Getting married or divorced.** One plus one does not always equal two in the tax world. Marriage means a new tax status, new deduction amounts and income limits, and a potential marriage penalty. The same is true for divorce, but with added complexity. Untangling assets, alimony, child support and dependents are all considerations worthy of discussion.
2. **Growing your family.** While bringing home a new child adds expenses to your budget, it also comes with some tax breaks. With a properly executed plan, you can take home the savings now to help offset some of those new costs. If you are adopting, you get an additional tax credit to help with the adoption expenses.
3. **Changing jobs or getting a raise.** Earning more money is great, but if you're not careful, you might be surprised by the tax hit. Each additional dollar you earn gets taxed at your highest tax rate, and might even bump you to the next tax bracket. If you are switching jobs, the change also includes things like new benefit packages to consider.
4. **Buying or selling a house.** Whether you're a first-time homebuyer, you're moving to your next house, or you're selling a house, there will be tax implications resulting from the move. Knowing how your taxes will be affected ahead of time will help you make solid financial decisions and avoid surprises. If you're looking to buy or sell investment property, even more tax issues come into play.
5. **Saving or paying for college.** There are so many different college tax breaks, it can be tricky to determine which ones might make the most sense for your situation. These include the American Opportunity Tax Credit, the Lifetime Learning Credit, the Coverdell Education Savings Account, 529 plans and student loan interest deductibility.
6. **Planning for retirement.** Everyone needs to plan for retirement, but each situation is different. Some of the factors to keep in mind include employment status, current income, available cash, future earnings and tax rates, retirement age and Social Security. Putting all of these variables into one analysis will paint a clearer picture of your retirement strategy and provide a way forward.

Don't make the mistake of omitting key details from your tax plan. Call now to schedule a tax-planning meeting.

Al Capone, Aunt Beck, Tax Fraud and You!

How you can learn from high-profile tax scandals

The recent college admission scandal involving Lori Loughlin (who played Aunt Becky in the *Full House* TV series) and others is shedding light on just one way people allegedly cheat on their taxes. Here are examples of some famous people in tax trouble with the IRS and helpful hints to make sure it doesn't happen to you:

1. **Lori Loughlin and questionable charitable donations.** In this case, the IRS would investigate whether payments deducted as charitable contributions on her tax return were really charitable contributions. Regardless of how the legal charges shake out, Loughlin is looking at a large tax bill if the charity she contributed to is stripped of their non-profit status.

   Helpful hint: *Charitable giving must be to legitimate charitable organizations, for legitimate purposes, and must be reduced by any value received in return.*

2. **Al Capone and his illegal earnings.** After years of bribing and wriggling his way out of violent crime charges, Capone was charged with 22 counts of tax evasion for not reporting income on illegal activities. He was sentenced to 11 years in prison - some of which were served at Alcatraz Federal Penitentiary in San Francisco.

   Helpful hint: *ALL income - even if obtained illegally - is taxable.*

3. **Wesley Snipes decided not to file his taxes.** In 2008, actor Snipes was convicted for not filing tax returns from 1999 to 2001. Among his many arguments, Snipes used the tax protester theory claiming domestic income is not taxable. After jail time, Snipes' offer in compromise to lower his $23 million tax bill request was shot down by the IRS.

   Helpful hint: *Exotic tax schemes are actively monitored by the IRS. If it seems to good to be true, it probably is too good to be true and requires a second opinion.*

4. **Leona Helmsley faked her business expenses.** Helmsley, A famous real estate mogul in the 1980s, had more than $8 million of renovations to her private home billed to one of her hotels so she could deduct the expense on her taxes. After being convicted, Helmsey had to pay back the $8 million and served 18 months in prison.

   Helpful hint: *Separate business expenses from personal expenses. Open separate bank accounts and never intermingle expenses. The IRS is quick to disallow deductions when personal expenses and business expenses are mixed together.*

5. **Pete Rose hid his "likeness" income.** Many famous athletes go on to sell autographs, memorabilia and get paid for appearances after they retire from their sport. Rose was no different, but he opted not to report the $354,968 he earned over a four-year period. The result was five months in prison and a $50,000 fine in addition to having to pay back the taxes he tried to avoid.

   Helpful hint: *Don't attempt to hide income. With fewer businesses using cash payments, the IRS now can use matching programs to quickly find underreporting problems.*

While seeing well-known celebrities in the press for tax trouble makes for interesting reading, there are useful tax lessons for all of us. It provides an opportunity to see how IRS employees think and what they are reviewing.

How to Update You Tax Withholding and Avoid a Surprise Tax Bill Next Year

The following article from the Huffington Post helps explain your W-4 and how it impacts your tax return.

This past tax season had big surprises in store for many filers. The Tax Cuts and Jobs Act, which went into effect for the 2018 tax year, was the biggest update to our tax code in more than 30 years. Unfortunately, that means many people who usually get a refund ended up owing money this year.

For some, it was because they lost valuable deductions and credits. But for others, it was because they had too little in taxes withheld from their pay throughout the year and had to pay the difference come tax season.

According to the IRS, new withholding tables were needed for 2018 to reflect changes to tax rates and tax brackets, an increase in the standard deduction and other changes made by the TCJA. That means that even if your overall tax liability decreased last year, you could have ended up owing some money because you didn't update your W-4.

Here's what you need to know about how tax withholdings work and how to update yours.

Understanding The All Important W-4

Every time your employer pays you, it has to withhold some money from your paycheck for taxes. So whenever you start a new job, part of the onboarding process includes filling out an Employee's Withholding Allowance Certificate, also known as a W-4. This form tells your employer how much of your income to set aside for taxes. You can also update your W-4 any time, such as when you experience a major life change like a big raise or a new child. It's a good idea to review it each year.

The W-4 is a fairly simple form to complete. It includes a few worksheets to help you determine how many allowances to claim.

"Generally speaking, the lower the number of allowances, the more tax is withheld from an employee's paycheck," said Dane Janas, an enrolled agent and owner of digital tax firm Boundless Tax.

For example, if you claim an allowance of zero, you have the most tax withheld from your paycheck and be more likely to end up with a refund. On the other hand, claiming an allowance of one or two means fewer taxes are withheld, resulting in a bigger paycheck. Of course, you could end up with a whopper of a bill come spring if you withhold too little. "This can further be tweaked by requesting additional withholdings from your paycheck in terms of a dollar amount," Janas said. Your goal should be to break even at tax time.

If your situation is fairly simple — single, one full-time job, no dependents — figuring out your ideal withholding isn't too difficult. But when you have a family, or maybe a second freelance job that requires you to estimate and pay your own taxes, things can get tricky.

To make matters more complicated, the IRS is in the process of developing a new W-4 that better reflects the recent tax law changes, which it plans to release later this year. It's expected to be much more complex. In fact, some experts say that filling out the new W-4 will be akin to actually doing your taxes.

In the meantime, though, everyone is still relying on the old W-4. And if you owed taxes last year — or got a giant refund — it's a good idea to revise your W-4 so that the correct amount of taxes are withheld this year.

How To Adjust Your Withholding

A September 2018 survey conducted by Liberty Tax found that 70 percent of respondents knew the purpose of a W-4, but about the same amount (69.5 percent) had not checked their withholding within the last six months. The problem is many taxpayers weren't aware of how the tax law changes would impact this aspect of their taxes. Eighty-five percent of survey respondents said they were slightly familiar or not familiar at all with the changes that may affect them.

"Regardless whether you were one that received a rather higher or lower tax bill for 2018, getting your tax withholding right is extremely important," said Paige Knight, marketing coordinator for accounting firm Gurian CPA, PLLC. "If you found yourself with an unexpectedly high tax bill for 2018, it is even more important to adjust your tax withholdings to avoid interest and penalties."

1. Rely on the worksheets: According to Knight, there are two key numbers you need to fill in your W-4: The number of allowances you're claiming and any additional tax you'd like to have withheld from your paycheck. Use the worksheets that come with the W-4 to help you determine the right amounts. These worksheets include:

    - Personal Allowances Worksheet
    - Deductions, Adjustments, and Additional Income Worksheet, which you should use if you plan to itemize deductions, claim certain adjustments to income or have a lot of non-wage income that isn't subject to withholding, such as freelance income.
    - Two-Earners/Multiple Jobs Worksheet, which helps you determine the right number of allowances if you have multiple jobs, or you're married and both you and your spouse work.
2. Use the IRS withholding calculator: Filling out the worksheets and estimating how much of your pay should be held for taxes can be confusing. To help you double-check whether you claimed the right number of allowances, the IRS offers a free withholding calculator. To use it, be sure to have recent pay stubs and your tax return from last year handy.

3. Check with a pro: If you have any questions or concerns about filling out your W-4 correctly, have a tax professional look at your withholdings. "Many professionals will provide this service at no cost, especially if you are an existing client," Janas said. They'll be able to tell by looking at your W-2 and tax return if your withholdings are too low or too high, and how to go about adjusting them.

Even though we're already more than four months into 2019, it's a good idea to go through this process if you fear you will owe again for the 2019 tax year. Getting hit with a surprise bill can be a blow to your budget, and paying taxes late can result in hefty penalties. "A late adjustment is better than none at all," Janas said.

4 Key Elements of Great Business Books

Your bookkeeping system is the financial heart and lifeblood of your business. When set up and operating properly, your books help you make smart decisions and seamlessly turn your financial data into useful information. Here are four key characteristics to build and maintain a healthy bookkeeping system:

1. **Select the proper accounting method**

    There are two different methods for recording transactions: cash-basis and accrual-basis. In general, cash-basis records a transaction when payment is made where accrual-basis books the transaction upon delivery of the good or service. Cash-basis is easier to track and a useful option for smaller businesses and sole-proprietors. Where as larger businesses who buy from vendors on account (accounts payable) generally use accrual-basis accounting.

    Selecting the proper method affects any related financial transactions and how your financial statements are displayed. A correct approach will also include consideration of outside factors, including: IRS rules (businesses with more than $25 million in gross receipts must use accrual-basis), bank covenants, and industry standards. Once a choice is made, it can be changed but it must be properly reported to the IRS.

2. **Create an account structure that fits the company**

    Every business has a chart of accounts included in their bookkeeping system. These accounts sort the business's transaction data into six meaningful groups. They are assets, liabilities, equity, income, cost of goods sold and other expenses. Each group will often have numerous accounts and sub-accounts associated with them.

    Having the right mix of accounts created and grouped in an organized fashion will help you properly classify transactions and prepare usable financial statements. The proper account structure for your company will mesh with your specific information needs.

3. **Enter accurate and timely transactions**

   The value your data provides is dependent on each transaction being recorded correctly and on time. Entering transactions in the wrong account can cause major issues down the road. Financial reporting that is delayed can hide problems that need immediate attention. Some transactions are relatively straightforward, and some are more complex (like payroll, accruals and deferrals).

   It's important to have someone who understands both your business and the accounting rules enter your transactions in a timely fashion. In addition, a good month-end close process that involves reviewing each account, will find mistakes from the initial entries.

4. **Establish financial statements for decision-making**

   The main financial statements are the income statement (income - expenses = gross profit), the balance sheet (assets = liabilities + equity) and statement of cash flow. Each statement has a specific purpose:

   a. **Income statement.** The income statement shows company performance for a select period of time; typically monthly with a full year summary. At the end of each year the income statement restarts.
   b. **Balance sheet.** The balance sheet displays a company's overall health as of a certain date. It is perpetual. This means it doesn't end until the business is closed or sold. It includes one line that summarizes the current year and prior year results from the income statement.
   c. **Statement of cash flow.** This statement summarizes the inflow and outflow of cash. It ensures you know whether you have enough cash and the pattern of your cash position over time.

If properly executed, your bookkeeping system will turn out accurate financial statements that can be used for several tasks - financial reporting, budgeting, forecasting, raising capital, applying for a loan, tax reporting and decision making. Feel free to call with any questions or to discuss bookkeeping solutions for your business.

How to Help a Working Grandchild

You can help a child or grandchild who are working this summer by contributing to a Roth IRA for them. You can contribute up to $6,000 for 2019 but not more than the child's 2019 earnings. Inside the Roth, earnings grow tax-free. If you go down this path, you have until April 15, 2020, to make the contributions. The pay-in counts toward your $15,000 gift tax exclusion ($30,000 if married).

These funds can provide a nice nest egg to go along with the tax advantages of Roth plans. All distributions made after 59 ½ are nontaxable, contributions can be pulled out free of income tax at any time, and when the child is ready to buy his or her first home, $10,000 of the earnings can be taken-out tax free. See IRS Publication 590-B or give us a call for more details.