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"You see the numbers, we look for the opportunities."

SPECIAL POINTS OF INTEREST:

- **Are you overdrawing your social capital account?**
- **Call-in times**
- **Referrals**
- **More reasons to give**
- **And much more...**

INSIDE THIS ISSUE:

Taxing Times

Dedicated to helping our clients keep the money that belongs to them through a focus on tax.

VOLUME 10, ISSUE 4 APRIL 2018

Congress Creates New Small Business Deduction

The tax reform law ushered in by Congress in December 2017, went into effect January 1, 2018. However, to keep the cost of the bill within Senate budget rules, the changes affecting individuals will expire after 2025. At that time, if no future Congress acts to extend or make permanent these changes, the provisions will sunset and the tax law will revert to its prior state.

New 20% Deduction for Qualified Business Income
Net income from sole proprietorships, partnerships, limited liability companies (LLCs), and S corporations is not subject to an entity level tax and instead is passed-through to the owners or shareholders on their respective income tax returns. Thus, the income is effectively subject to individual income tax rates.

New law. For years 2018 through 2025, a significant new tax deduction takes effect. It should provide a substantial tax benefit to individuals with "qualified business income" from a partnership, S corporation, LLC, or sole proprietorship.

The deduction is 20% of your "qualified business income (QBI)" from a partnership, S corporation, or sole proprietorship, defined as the net amount of "qualified items of income, gain, deduction, and loss" with respect to your trade or business. The determination of qualified items of income, gain, deduction, and loss takes into account these items only to the extent included or allowed in the determination of taxable income for the year.

> *Example: In the current year a qualified business has $100,000 of ordinary income from inventory sales, and makes an expenditure of $25,000 that is required to be capitalized and amortized over 5 years under applicable tax rules. QBI is $100,000 - $5,000 (current year ordinary amortization deduction), or $95,000. QBI is reduced only by the amount deductible in determining taxable income for the year.*

The business must be conducted within the U.S. to qualify, and specified investment related items are not included, e.g., capital gains or losses, dividends, and interest income (unless the interest is properly allocable to the business). The trade or business of being an employee does not qualify. Also, QBI does not include reasonable compensation received from an S corporation, or a guaranteed payment received from a partnership for services provided to a partnership's business.

> *Example: Sam owns and operates an S Corporation which makes $300,000 before Sam's salary. Sam receives $100,000 in wages. Sam's deduction is 20% of $200,000, or $40,000.*

Continued on page 3

Deposits Before Withdrawals

Rule #1 in banking, a cardinal rule that can't ever be violated: before you allow a customer to make withdrawals, they must first have made deposits. A subset of that rule is, that if the customer withdraws more than his account balance there will be fines, penalties, and fees payable to the bank.

Social capital is very much like that. Just like you have to put money in the bank before you can make a withdrawal, you have to invest in your relationship before you ask for anything in return. Some people just don't seem to get that. I've had people ask me to refer them to my clients shortly after I've met them or after a ten year absence.

You have to build a solid relationship so that you can make a withdrawal when the time is right, without overdrawing your social capital account.

In his book, *Avoiding The Networking Disconnect: The 3R's To Reconnect*, Dr. Ivan Misner tells the story about his good friend Alex. Alex was in an organization with Dr. Misner and when he first started talking to Alex, Alex would offer him ideas and suggestions without expecting anything in return. He even offered to design a website at no charge! He and Alex would connect every few months in person or by phone and Alex

Continued on page 2

Deposits Before Withdrawals —

continued from page 1

would an invariably give him something of value. On several occasions, Dr. Misner asked, "Alex, how can I help you?" But Alex would always reply, "Nothing-we're good. I'm okay."

Dr. Misner says he was aware of how the Law of Reciprocity works-you have to help someone else.

So one day, Alex called Dr. Misner and said, "Ivan, I have a favor to ask of you."

"Stop!" Dr. Misner said, "The answer is yes!"

Alex laughed and said, "I haven't even told you what the favor is yet."

Dr. Misner says he replied, "Well, two things: first, I can't imagine you asking me anything I wouldn't be OK doing. I've known you long enough now that I can't imagine you would do that. The second is that you have contributed so much to our relationship. You've given and given and given-and I haven't had a chance to give back. So I'm in! What do you want?"

Alex explained what he wanted. He asked Dr. Misner to help him promote a project. It was an easy thing for Dr. Misner to do. And the truth is, Dr. Misner says he would've done it for Alex even if he hadn't been so generous with him. But, because he had given so much to their relationship, Dr. Misner knocked himself out to make sure he gave back to him.

That's the exact opposite of what most people do. You've really set yourself apart if, like Alex, you invest the time to build up your social capital with others. When you do finally ask them for a favor, or a withdrawal, they'll be tripping over themselves to help you because you've already done so much for them. ✷

This month's special Member-Only call-in times for Lindsey's Insider's Circle will be 4/30/18 from 2:00 to 4:00 pm. To schedule your appointment, contact Kristen at (251) 633-4070. Not a member yet? Find out how to become one TODAY!

Viewpoint: Alabamians Get Another Reason to Fund Tax Credit Scholarships *By: Bruce Ely*

With the federal Tax Cuts and Jobs Act in place for 2018, many Alabamians and companies doing business in our state should see a reduction in their 2018 federal income tax bills; but, somewhat surprisingly, an increase in their state income tax liability.

Why? Because many high-income individuals and some multistate corporations have benefited over the years by deducting their federal tax payments on their Alabama income tax returns. Ergo, a reduced federal tax deduction, without proper planning, may result in higher Alabama taxes this year and hereafter.

At the same time, the TCJA capped at $10,000 an individual's total deductions for state and local income, sales, and property taxes, known as the SALT Deduction. However, charitable contributions weren't capped by the act.

Thus, news and research organizations as diverse as *The New York Times, The Washington Post,* and the Tax Foundation point out the taxpayers now have even more incentive to donate to a qualified scholarship granting organization such as the Alabama Opportunity Scholarship Fund.

While receiving a dollar-for-dollar credit against their Alabama income tax liability (up to one-half), more importantly, qualifying taxpayers will be supporting thousands of our state's most at-risk children in attaining the education they need to be successful and productive. In addition, the donation may be deductible as a charitable contribution on one's federal tax return -- at least so far. Individuals subject to the federal alternative minimum tax (AMT) may receive an added benefit when they donate to AOSF.

Due to a favorable ruling by the Alabama Department of Revenue last fall, Alabama taxpayers may now offset up to one-half their quarterly estimated state income tax liability (without penalty) by donating to a qualified SGO like AOSF, so there's no reason to wait until the last quarter of the year. Indeed, AOSF reports there are more than 21,000 students on its scholarship waiting list, so the need is immediate.

As an added incentive to consider this idea soon, we can expect the limited allocation of tax credits under the Alabama Accountability Act to be claimed by Alabama taxpayers (generally, individuals and corporations) much earlier in the year than in past years. Those credits are claimed on a first-come, first-served basis through the ADOR's "My Alabama Taxes" website. As of January 12, 10% of the credit allocation for 2018 had already been locked in by taxpayers.

This article originally appeared in the Birmingham Business Journal on January 18, 2018. Reprinted with permission.

NOTE: The entire $30 million allocation of tax credits for 2018 has been exhausted already. The ADOR website ("MAT") will reopen on May 1 in case some taxpayers reneged on their commitment/ pledge and some credit is restored to the pot.

Bruce Ely is a partner with the law firm of Bradley Arant Boult Cummings LLP in its Birmingham office and an adjunct professor in the graduate accounting program at the University of Alabama's Culverhouse School of Accountancy. ✷

Congress Creates New Small Business Deduction—*continued from page 1*

Example: Samantha is a partner who receives a guaranteed payment from a partnership. Her share of partnership profits equals $200,000 and she received $100,000 as a guaranteed payment. Samantha's deduction would be 20% of $200,000 or $40,000.

The deduction is taken "below the line," i.e., it reduces your taxable income, but not your adjusted gross income. But it is available regardless of whether you itemized deductions or take the standard deduction. In general, the deduction cannot exceed 20% of the excess of your taxable income over net capital gain. If QBI is less than zero it is treated as a loss from a qualified business in the following year.

Example: Taxpayer has QBI of $20,000 from qualified business A and a qualified business loss of $50,000 from qualified business B in year one. Taxpayer is not permitted a deduction for year 1 and has a carryover qualified business loss of $30,000 to year 2.

In year 2, taxpayer has QBI of $20,000 from qualified business A and QBI of $50,000 from qualified business B. To determine the deduction for year 2, taxpayer reduces the 20% deductible amount determined for the QBI of $70,000 qualified business A and B by 20% of the $30,000 carryover qualified business loss.

Rules are in place to deter high income taxpayers from attempting to convert wages or other compensation for personal services into income eligible for the deduction.

For taxpayers with taxable income above $157,500 ($315,000 for joint filers), an exclusion from QBI of income from "specified service" trades or businesses is phased in. These are trades or businesses involving the performance of services in the fields of health, law, consulting, athletics, accounting, financial or brokerage services, or where "the principal asset is the reputation or skill of one or more employees or owners". *Note: We don't yet fully know what that means, especially since engineers and architects were eliminated from the list at the last minute.*

Here's how the phase-in works: if your taxable income is at least $50,000 above the threshold, i.e., $207,500 ($157,000 + $50,000), all the net income from the specified service trade or business is excluded from QBI. (Joint filers would use an amount $100,000 above the $315,000 threshold, viz., $415,000.) If your taxable income is between $157,500 and $207,500, you would exclude only that percentage of income derived from a fraction the numerator of which is the excess of taxable income over $157,500 and the denominator of which is $50,000. So, for example, if taxable income is $167,500 ($10,000 above $157,500), only 20% of the specified service income would be excluded from QBI ($10,000/$50,000). (For joint filers, the same operation would apply using the $315,000 threshold, and a $100,000 a phaseout range.)

Additionally, for taxpayers with taxable income more than the above thresholds, a limitation on the amount of the deduction is phased in based either on wages paid or wages paid plus a capital element.

Here's how it works: if your taxable income is at least $50,000 above the threshold, i.e., $207,500 ($157,500 + $50,000), your deduction for QBI cannot exceed the greater of (1) 50% of your allocable share of the W-2 wages paid with respect to the qualified trade or business, or (2) the sum of 25% of such wages plus 2.5% of the unadjusted basis immediately after acquisition of qualified tangible depreciable property used in the business (including real estate). So, if you're QBI were $100,000, leading to a deduction of $20,000 (20% of $100,000), but the greater of (1) or (2) above were only $16,000, your deduction would be limited to $16,000, i.e., it would be reduced by $4,000. And if your taxable income were between $157,500 and $207,500 you would only receive a pro rata percentage of the $4,000 reduction. (For joint filers, the same operations would apply using the $315,000 threshold, and a $100,000 phaseout range.) ✷

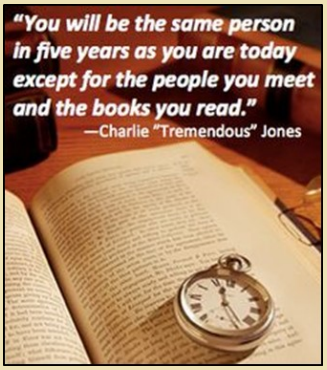
What I'm Reading...

NOW

End Game by David Baldacci
The Storyteller's Secret by Carmine Gallo

RECENTLY

Flood Tide by Clive Cussler
Start with Why by Simon Sinek



Looking for Someone You Can Rely On?

We really believe in the process of referrals, so part of the service we provide is to be sure to refer our clients and associates to other qualified businesspeople in the community.

Below, you'll find a list of areas in which we know very credible, ethical, and outstanding professionals. If you're looking for a professional in a specific area we've listed, please feel free to contact us. We will be glad to put you in touch with the people we know who provide these services.

- Mortgage Broker
- Attorney
- A/C Repair
- Welding Supplies
- Cultured Marble
- Realtor
- Auto/Home/Life Insurance
- Printer
- Home Inspector
- Banker
- Bulk Port Facility
- Custom Monogramming & Embroidery
- Identity Theft Protection
- Executive Leadership Coach
- iPhone and Tablet Repair
- Investment Advisor
- Painter
- Home Inspector

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Don't forget...

tax deadline is April 17, 2018.

To be removed from our mailing list, call/email us:
(251) 633-4070 or info@CPAMobileAL.com.

21 Types of Income That the IRS Can't Touch

When you think about receiving additional income, do you automatically wonder, "How is this going to affect my taxes, or how much should I withhold to cover the additional income tax?" Well, you should know while most income you receive is taxable, there are several types of income that the IRS can't touch. Listed below are some of the types of income that increase the money in your pocket without having to pay a percentage to the IRS:

1. Tax free interest. Such as interest earned on bonds issued by state, territory, municipality, or any political subdivision (municipal bonds).
2. Carpool reimbursements. If you form a carpool to carry passengers to and from work, any payments received from the passengers are not included in your income.
3. Profit from selling your house. It has to be your principal residence for two of the most recent five years. You can exclude as much as $250,000 in gain ($500,000 on a joint return) when you sell it. This can be claimed every two years.
4. Compensation in the form of health care. If your employer pays your health coverage, this can be considered nontaxable compensation.
5. Compensation in the form of life insurance. Coverage of term life insurance of $50,000 or less paid by the employer isn't taxed to you. You pick the beneficiary and the company pays the premium. The company can deduct the expense and you have additional tax free income.
6. Compensation in the form of sending you to school. Your company can pay and deduct as much as $5,520 per year in education assistance for either undergraduate or graduate courses.
7. Compensation in the form of transportation fees. If you drive to work and have to pay to park, your company is now able to provide you free parking up to the maximum value of $230 per month.
8. Compensation in the form of a cafeteria plan. A cafeteria plan can contain several benefits such as a Flexible Spending Account. You, as the employee, choose the nontaxable benefits and you have no additional income (this may include life insurance, disability benefits, dependent care, and/or accident and health benefits).
9. Gifts and other nontaxable gifts such as tuition or medical expenses paid on someone else's behalf.
10. Inheritance.
11. Disability insurance payments. If you purchase supplemental disability insurance with after tax dollars the benefits are nontaxable. Compensatory damages for physical injury or physical sickness and disability benefits from a public welfare fund are considered nontaxable.
12. Child support payments.
13. Employee discounts. If you purchase property from your employer and receive a discount, you do not have to include that discount as part of income, nor pay tax on that discount.
14. Meals on work premises. If the cost of meals served on your employer's premises and furnished for the convenience of the employer, it is nontaxable.
15. Employer provided vehicle. If your employer provides you a car for business use, the personal use in that car is considered nontaxable (non-cash fringe benefit).
16. VA benefits.
17. Compensation paid under a worker's compensation act or a statue in the nature of a worker's compensation act.
18. Bankruptcy. Cancelled debt under Title 11 of the US Code.
19. Disaster relief payments.
20. Cash rebates.
21. Scholarships and Fellowships.

These are twenty-one types of income the IRS can't touch, and more importantly leaving more money in your pocket. And I will let you in on a little secret... there are EVEN a few MORE! ✷