

Taxes for Real Estate Professionals

Integrity in Tax & Accounting

920-277-2991

www.integrityintaxllc.com

January 2019 ~ WiscoREIA

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Upcoming Tax Due Dates

Jan. 31 – W-2 & 1099-Misc

Mar. 15 – Business Returns

Apr. 15 – Individual Returns

IRS Partially Closed

At the time of this writing, our government remains to be shutdown. Tax law remains in effect and all taxpayers are expected to meet their tax-filing obligations.

Happy New Year!

Have a Tax Question?

Join us Wed, Jan. 16, 2019 from 6-7pm at Mortgage Nerds in Appleton for some tax Q&A. Tax questions can be emailed ahead of time to info@integrityintaxllc.com.



Services that continue to be provided are:

- Completion and testing of the upcoming Filing Year programs
- Processing of returns and remittances with payment
- Processing disaster-relief transcripts
- Design and printing of tax forms.

Standard Mileage Rates 2018/ 2019

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Business = \$0.545/ \$0.58

Medical = \$0.14/ \$0.20

Charity = \$0.14

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* Standard Deduction:
2018/ 2019
\$12,000/ \$12,200 Single
\$24,000/ \$24,400 MFJ
\$18,000/ \$18,350 HoH

* Personal Exemption is eliminated for Tax Years 2018 - 2025.

* Child Tax Credit:
Increase to \$2,000 per child under age 17. Dependents over age 17 may qualify for \$500 credit.

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Revised Tax Forms for 2018

It's not quite the "post-card" tax return, but the 2018 tax return has a bit of a different look. It is ½ page front & back 1 piece of paper.

The front ½ is for your personal information, the back ½ is for your financial information. Of course, it can't be this simple. There are six schedules that will be used for those reporting complex adjustments, income, etc. The six schedules are:

Schedule 1: Additional income & Adjustments to income. These are items that were previously reported on page 1 of Form 1040 such as business income, rental income, and capital gain or loss.

Schedule 2: Excess Advance Premium Tax Credit Repayment and AMT. This is primarily for those who are enrolled in ACA (Obamacare) health insurance through the marketplace and AMT.

Schedule 3: Nonrefundable Tax Credits. This includes popular credits such as dependent care expenses, education credits, savers credit, and residential energy credits that were previously reported on page 2 of Form 1040 near the top.

Schedule 4: Other Taxes. These items include self-employment tax, repayment of 2008 first time home-buyer credit, and healthcare shared responsibility payment that were previously reported on page 2 of Form 1040 in the middle.

Schedule 5: Tax Payments & Refundable Credits. This reports payments such as estimated tax payments, payment made with extension to file, and net premium tax credit that were previously reported on page 2 of Form 1040 under Payments section.

Schedule 6: Foreign Address and Third-Party Designee, which was previously near the bottom of page 2 Form 1040 just above the signature lines.

These schedules do not replace additional schedules and forms required to report income, credits, and deductions. For example,

rental real estate properties are still reported on Sch. E that will roll-forward to Schedule 1, Line 17.

Amended Form 1040X remains the same. This is the form that is used to report a new, missed, or incorrect item on a prior year's already filed tax return. These continue to be paper-filed.

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2019 Per Diem Rates

The IRS permits taxpayers to use these rates to substantiate business expenses for lodging, meals, and incidental expenses incurred while traveling away from home. The maximum standard per diem rate has increased from \$144 to \$149 (\$94 for lodging and \$55 for meals and incidental expenses). Per diem rates for localities without standard rates range from \$149 to \$470 (with Vail, Colorado having the highest rate). The updated rates are effective from 10/1/18 through 9/30/19. The per diem rates are released by the General Services Administration (GSA).

The per diem rates can be found at <https://www.gsa.gov/travel/pl-an-book/per-diem-rates>.

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2019 Cost-of-Living Adjustments (COLA)

The IRS cost of living adjustments affecting dollar limitations for pension plans and other retirement-related items for tax year 2019 are released in Notice 2018-83.

Highlights of Changes for 2019

The contribution limit for employees who participate in 401(k), 403(b), most 457 plans, and the federal government's Thrift Savings Plan is increased from \$18,500 to \$19,000.

The limit on annual contributions to an IRA, which last increased in 2013, is increased from \$5,500 to \$6,000. The additional catch-up contribution limit for individuals aged 50 and over is not subject to an annual cost-of-living adjustment and remains \$1,000.

The income ranges for determining eligibility to make deductible contributions to traditional Individual Retirement Arrangements (IRAs), to contribute to Roth IRAs and to claim the saver's credit all increased for 2019.

Highlights of Limitations that Remain Unchanged from 2018

The catch-up contribution limit for employees aged 50 and over who participate in 401(k), 403(b), most 457 plans and the federal government's Thrift Savings Plan remains unchanged at \$6,000.

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Income Reminder:

Per Internal Revenue Code Section 61(a), gross income includes all income from whatever source derived, including, but not limited to the following:

W-2 wages, commissions, self-employment, rental property, interest, dividends, royalties, annuities, pensions, share of partnership/S-Corp, and illegal activities.

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Are Your Expenses Ordinary & Necessary?

To be deductible, a business expense must be both **ordinary and necessary**. An ordinary expense is one that is common and accepted in your trade or business. A necessary expense is one that is helpful and appropriate for your

trade or business. An expense does not have to be indispensable to be considered necessary.

Deductible business expenses differ by industry.

Unfortunately, the IRS does not produce a list of acceptable business expenses that are deductible. However, IRS court cases, remind us that "tax deductions are a matter of legislative grace, and it is the taxpayer that bears the burden of proving entitlement to any deduction claimed" (Segel v. Commissioner, 89 T.C. 816, 842 (1987)).

As you prepare your 2018 books for taxes, be sure to review all expenses and only include as a tax deduction if the expense is ordinary & necessary in your industry.

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Start Preparing for 2018 Taxes

As tax season fast approaches, getting a head start on gathering documents is key. Following are documents you should (if you haven't already) have for tax prep time:

- Rental property income
- Rental property expenses
- Mileage logs
- Business Income
- Business Expenses
- Property Taxes Paid
- Mortgage Interest Form 1098 Paid
- 1095-Health Insurance Form
- W-2 (if applicable)

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Opportunity Zone Tax Credit

The Treasury Department and IRS issued proposed regulations and other published guidance for the new Opportunity Zone tax incentive.

Opportunity Zones, created by the 2017 Tax Cuts and Jobs Act, were designed to spur investment in distressed communities throughout the country through tax benefits.

Under a nomination process completed in June, 8,761 communities in all 50 states, the District of Columbia and five U.S. territories were designated as qualified Opportunity Zones. A list of Wisconsin areas has been posted on our website at www.integrityintaxllc.com under Taxes For Real Estate Professionals.

Have a Tax Question?

Submit your questions to: info@integrityintaxllc.com with WiscoREIA in the subject line.

Recent Court Cases

Tax Court has announced that it will be shut-down during the government shut-down.

Taxpayer Sch. C Expenses Disallowed in Connection with Real Estate Investments:

In Mila Alemasov and Victor Popov v. Commissioner T.C. Summary Opinion 2007-130, Mrs. Mila Alemasov began an activity as a real estate finder and consultant that included she travel to Hawaii, Korea, China, and Las Vegas on behalf of clients to search for prospective real estate investment opportunities.



During the year, Mila did not earn any income for her services as a real estate consultant and finder. Upon filing the 2002 tax return, Mila reported a loss on Schedule C in the amount of \$31,261 from the real estate activity. The tax return was selected for audit in which Mila was requested to substantiate the deductions claimed on Sch. C of the tax return. When Mila did not provide the requested documents timely, the IRS issued a 30-day letter proposing to disallow all of the Sch. C deductions. Mila then protested the 30-day letter but was unsuccessful at resolving the matter with the Appeals office. The IRS disallowed all of the Sch. C expenses as deductions for the reason that "Since you did not establish that the business expense shown on your tax return was paid or incurred during the taxable year and that the expense was ordinary and necessary to your business, we have disallowed the amount shown." "You cannot claim deductions, credits, exemptions, or other

tax benefits unless you can show that you meet all of the requirements to be eligible for them.”

In summary, failing to respond to the IRS’s request for documentation will disallow the deduction. The IRS’s determinations are generally presumed correct and then it is the taxpayer that bears the burden of proving that the determinations are in error. Deductions are a matter of legislative grace, and the taxpayer has the burden of proving entitlement to any claimed deduction.

Revenue Ruling Addresses Qualified Opportunity Zone Business Property:

The taxpayer, a Qualified Opportunity Fund (QOF), purchased a factory located in a Qualified Opportunity Zone (QOZ) for \$800x. \$320x of the purchase price was attributable to the building, and \$480x was attributable to land.



Within 24 months, the taxpayer plans to invest an additional \$400x to convert the factory into residential

rental property. The IRS held that (1) the original use of both the building and the land didn't commence with the QOF; (2) a substantial improvement is measured by the QOF's additions to the adjusted basis of the building; and (3) the QOF isn't required to separately substantially improve the land on which the building is situated. Therefore, the IRS found that the QOF will substantially improve the building because during the 30-month period beginning after the acquisition date, the taxpayer's additions to the building's basis (\$400x) will exceed its beginning basis (\$320x). Rev. Rul. 2018-29.

Common FAQ's are available at <https://www.irs.gov/newsroom/opportunity-zones-frequently-asked-questions>.

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