Taxes for Real Estate Professionals

Integrity in Tax & Accounting | 920-277-2991 | www.integrityintaxllc.com

November 2018 ~ WiscoREIA

By Tina M. Kleckner EA, CAA

We Moved!

Our New Location Is:
213 S. Casaloma Drive,
Appleton, WI 54914

New 20% Business Deduction!

Contact us for more Details @

920-277-2991

Join us at our open houses ~
Nov. 7 – 4 - 6pm
Nov. 10 – 11am - 1pm

Mileage Deduction Reminders

A reminder for business owners who use IRS's standard mileage rates. You can't also depreciate or expenses the vehicle, nor can you claim write-offs for actual expenses incurred such as car repairs, insurance, and gas.

The IRS is on the lookout for business owners that take the standard mileage deduction and also have vehicle depreciation and related expenses. For example, in the case of Eldred, Tax Court Summary Opinion 2018-49, a couple deducted vehicle expenses on Schedule C using the standard mileage rate and claimed depreciation deduction and Section 179 expense on the same automobile. The IRS selected their return for audit and allowed only the expenses based on the standard mileage rate.

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Standard Mileage Rates 2018

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Business = $0.545

Medical = $0.17

Charity = $0.14

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Tax Reform

* Standard Deduction:
$12,000 Single
$24,000 Married Filing Joint
$18,000 Head of Household

* 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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Bonus Depreciation – What is it & Why Should I Care?

Under the new tax law, there is an unlimited 100% first-year bonus depreciation for qualifying new and used assets that are acquired and placed in service between 9/28/17 and 12/31/22. A used asset cannot have been previously used by you or your business entity; it must be new to you or the entity.

The Act refers to the new 100% depreciation deduction in the placed-in-service year as "100% expensing," but the tax break should not be confused with expensing under Section 179 expensing which is subject to entirely separate rules.

In later years, the first-year bonus depreciation deduction phases down, as follows:

- 80% for property placed in service after Dec. 31, 2022 and before Jan. 1, 2024.
- 60% for property placed in service after Dec. 31, 2023 and before Jan. 1, 2025.
- 40% for property placed in service after Dec. 31, 2024 and before Jan. 1, 2026.
- 20% for property placed in service after Dec. 31, 2025 and before Jan. 1, 2027.

Impact on Vehicles: The new law's 100% first-year bonus depreciation can have a beneficial impact on first-year depreciation deductions for new and used heavy vehicles used over 50% in your business. That's because heavy SUVs, pickups, and vans are treated for tax purposes as transportation equipment rather than passenger vehicles, and that means they qualify for 100% first-year bonus depreciation. You must use a heavy vehicle over 50% for business in order to claim 100% first-year bonus depreciation.

100% first-year bonus depreciation is only available when an SUV, pickup, or van has a manufacturer's gross vehicle weight rating (GVWR) above 6,000 pounds. Several of the popular sport utility vehicles, for example Chevrolet Suburbans, and Toyota Land Cruisers, are heavy enough to be rated for gross vehicle weight in excess of 6,000 pounds (Ltr. Rul. 9520034). To check a vehicles weight, common websites, such as www.intellichoice.com and www.carsdirect.com/new_cars/search are very helpful.

This is a very high level overview of the new tax laws that can provide a definite benefit to you and your business. For additional information, schedule an appointment with Tina to discuss your specific situation.

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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.

Opportunity Zones retain their designation for 10 years. Investors may defer tax on almost any capital gain up to Dec. 31, 2026 by making an appropriate investment in a zone, making an election after December 21, 2017, and meeting other requirements.

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

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Rehabilitation Credit

The rehabilitation tax credit offers an incentive for owners to renovate and restore old or historic

buildings. Tax reform legislation passed in December 2017 changed when the credit is claimed and provides a transition rule:

- The credit is 20 percent of the taxpayer's qualifying costs for rehabilitating a building.
- The credit doesn't apply to the money spent on buying the structure.
- The legislation now requires taxpayers take the 20 percent credit spread out over five years beginning in the year they placed the building into service.
- The law eliminates the 10 percent rehabilitation credit for pre-1936 buildings.
- A transition rule provides relief to owners of either a certified historic structure or a pre-1936 building by allowing owners to use the prior law if the project meets these conditions:
- The taxpayer owned or leased the building on January 1, 2018, and the taxpayer continues to own or lease the building after that date.
- The 24- or 60-month period selected by the taxpayer for the substantial rehabilitation test begins by June 20, 2018.

More information is available at https://www.irs.gov/businesses/small-businesses-self-employed/rehabilitation-tax-credit-real-estate-tax-tips.

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Tax Reform

The Tax Cuts and Jobs Act, also known as TCJA, was signed into law by the President on Dec. 22, 2017. This new tax law includes many provisions that affect individuals and businesses. Each month, we will explain at high level one provision that affects individual tax returns and one provision that affects businesses.

Individual: Notice that on page 1 of this newsletter on the right side, we have a few highlights of the TCJA that will affect just about every individual tax return filed in 2019.

Health Care Mandate: Individuals are required to have the Minimum Essential Coverage (MEC) health insurance through Dec. 2018 or be subject to the individual mandate penalty. For tax years ***after*** 2018, this penalty does not apply and this change is permanent.

The 3.8% Net Investment Income Tax (NIIT) and the 0.9% additional Medicare tax remain.

Expansion of 529 Plans:
Distributions after Dec. 31, 2017 for qualified higher education expenses include tuition paid for K-12 public, private, or religious schooling up to $10,000 per year per child.

Business: The TCJA has modified the depreciation limits on passenger automobiles (the luxury auto depreciation limit). For passenger automobiles placed in service after December 31, 2017, first year depreciation is increased to $10,000 for the year the vehicle is placed into service. Second year depreciation is $16,000, third year depreciation is $9,600, and fourth year and remaining years depreciation is $5,760.

For passenger automobiles placed in service after 2018, these dollar limits are indexed for inflation.

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Tax Relief for WI Disaster Victims

The Internal Revenue Service (IRS) recently announced that they are granting victims of severe storms, tornadoes, straight-line winds, flooding, and landslides in Wisconsin more time to file returns.

Taxpayers who reside or have a business in the following Wisconsin counties are eligible for relief: Crawford, Dane, Juneau, La Crosse, Monroe, Richland, Sauk, and Vernon.

Taxpayers considered to be eligible for the postponement of time to file returns, pay taxes and perform other time-sensitive acts are those individuals who live, and businesses (including tax-exempt organizations) whose principal place of business is located, in the covered disaster area. Taxpayers not in the covered disaster area, but whose records necessary to meet a deadline listed in the covered disaster area, are also entitled to relief.

Taxpayers granted an extension by the IRS are automatically granted a similar extension for filing their Wisconsin income or franchise tax return.

More information is available at https://www.irs.gov/newsroom/tax-relief-for-victims-of-severe-storms-in-wisconsin

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Have a Tax Question?

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

Blog

Tina's Blog can be found on our website at www.integrityintaxllc.com – click on Tina's Blog.

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Prior Month's Newsletters

are available on our website at www.integrityintaxllc.com – click on Real Estate Professionals.

Recent Court Cases

Business Expense Deductions Denied: *In E.W. Lau v. Commissioner T.C. Memo 2015-137; July 2015),* Edwina Wan-Wen Lau, a freelance graphic designer, was not entitled to deduct business expenses because she could not substantiate them. In addition, Lau failed to show the relationship between her automobile, office, repair, supplies, internet, and cellphone expenses and her graphic design business.

Infact, the only records that Lau could produce were bank statements from her personal checking account which contained highlighted items indicating business expenses, however, the records did not establish a business purpose for the expenses. Lau also failed to show the highlighted expenses for meals at various restaurants, purchases at gas stations, liquor or wine store purchases, and purchases at retail stores such as Saks Fifth Avenue and Shoes.com were ordinary and necessary business expenses under IRC Sec. 162.

In addition to being disallowed business expense deductions, the claimed depreciation was also disallowed because Lau offered no records regarding the type of property purchased or used in her trade or business, did not establish the property's depreciable basis by substantiating its cost, useful life, or any previously reported depreciation.

Lau also failed to show that she used a portion of her home exclusively for business purposes, and, therefore, was not entitled to deduct the home office expenses under IRC Sec. 280A.

The Tax Court's conclusion for Lau is "…we have considered all arguments made, and, to the extent not mentioned, we conclude they are moot, irrelevant, or without merit."

Home Office Deduction Denied for Document Storage in Garage: The taxpayer owned a smog inspection station in California. By law, he was required to keep certain invoices and records regarding smog checks for at least three years. Because the station lacked office space, the taxpayer stored the inspection invoices and other business-related items in a shared two-car garage attached to his personal residence.

On his federal income tax returns for the years at issue, the taxpayer claimed home office expense deductions for the use of his garage. He argued this was the most convenient and inexpensive place to store the records. The IRS disallowed the deductions under IRC Sec. 280A(a). The Tax Court sided with the IRS, finding that the taxpayer's garage wasn't used exclusively as his principal place of business. Also, he didn't qualify for an exception that pertains to the storage of inventory or product samples that are sold at retail or wholesale. *Mohammad Najafpir* , TC Memo 2018-103 (Tax Ct.).