Taxes for Real Estate Professionals

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

October 2018 ~ WiscoREIA

By Tina M. Kleckner EA, CAA

Tax Deadline – Oct. 15!

Individuals that have filed a tax extension~ Extensions are due Oct. 15, 2018.

Fake Charity Donation Requests

In the wake of Hurricane Florence, the IRS is alerting taxpayers of fake charities setup by criminals to get ahold of your personal information such as social security number, bank accounts, and credit cards. The IRS has an online tool which allows you to search and verify legitimate, qualified charities. This can be found at https://apps.irs.gov/app/eos/.

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New 20% Business Deduction!

Contact us for more Details @

920-277-2991

We're Moving!

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

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

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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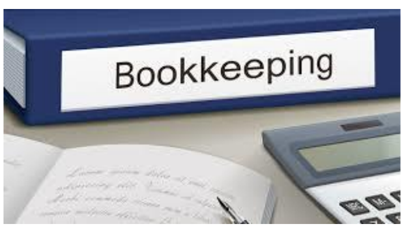
Address:
5733 W. Grande Market Drive
Ste E
Appleton, WI 54913
920-277-2991

Bookkeeping – How are your 2018 records?

As we are approaching the fourth quarter of 2018, this is a good time to ensure the income and expenses for your business are up to date and accurately reflect the activity during the year. This also allows for tax planning before the end of the year which is critical this year with the new tax law and the 20% Qualified Business Income Deduction. Below are a few important bookkeeping items that are of high significance.



First of all, your business should have a separate checking account at the bank from your personal checking account. All business income and expenses should be deposited and paid from the business checking account.

Second, a reconciliation should be done each month to reconcile the bank statement to your bookkeeping records. This ensures all business activity is recorded in your bookkeeping records.

Third, a Profit & Loss Statement should be generated from your bookkeeping records which will help you track the business income and expenses, know how the business is doing, for instance incurring a profit or loss, and use for tax planning and preparation.

For those businesses that have multiple jobs being worked on at once, we recommend keeping track of the income and expenses associated with each job. Then you can easily see and compare which jobs are making you money, costing you money, or breaking even. For example, the business has 3 houses that are purchased and rehabbed during the year, the income and expenses associated with each rehab should be linked to a specific job which will allow you to easily access the activity of each rehab.

It is much easier to keep up with your bookkeeping monthly throughout the year, than to wait until January or February of the following year when the rush is on to file your taxes.

Bonus Depreciation & Vehicles

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. However, a used asset cannot have been previously used by you or your business entity; it must be new to you or the entity.

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.

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.

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.

Recent Court Cases

Mileage Deduction Not Allowed for this WI Man: In *Marquardt v. Commissioner T.C. Summary Opinion 2001-59*, the Tax Court determined no credible evidence was provided to substantiate the mileage deduction taken.

Frederick J. Marquardt is in the business of selling health and life insurance policies door-to-door in rural areas of Wisconsin. With respect to this business, during 1995, 1996, and 1997, Marquardt did not record mileage or customers visited on a daily basis. Using the standard mileage rates, Marquardt claimed deductions for car and truck expenses on Sch. C in the following amounts $16,271 in 1995, $24,485 in 1996, and $20,361 in 1997.

To meet the strict substantiation requirements, the taxpayer must substantiate the amount, time, place, and business purpose of the expenses. With respect to the use of automobiles, in order to establish the amount of an expense the taxpayer must establish the amount of business mileage and the amount of total mileage for which the automobile was used. The taxpayer may substantiate the amount of mileage by adequate records or by sufficient evidence corroborating his own statement. A record of the mileage made at or near the time the automobile was used, supported by documentary evidence, has a high degree of credibility unlike a subsequently prepared statement.

Marquardt provided an appointment calendar for each of the three years to substantiate the mileage expenses. The 1997 calendar contains names of cities written at the beginning of most weekdays which are meant to record the cities visited by Marquardt for his business. The calendar also contains names of individuals whom Marquardt visited while on some of these trips. However, these names were added by Marquardt during the audit of the tax return. Weekly totals of business miles were recorded in the calendar, however, the Tax Court does not accept these figures as credible evidence of the mileage actually incurred. How Marquardt arrived at these numbers was not explained at trial; there was no evidence that a log was maintained allocating business and personal mileage on the automobile. For instance, in 1997, Marquardt reported 64,638 business miles. The calendar reflects Marquardt worked 247 days in 1997, which would imply that he drove the automobile an average of 262 miles each business day. Furthermore, taking as an example the week of March 10, 1997, the calendar reflects visits to Crivitz, Wisconsin, every day from Monday through Friday, and that his business mileage for that week was 1,469 miles. However, Crivitz is approximately 32 miles from Marquardt's home in Oconto Falls. The Tax Court finds it highly unlikely, at best, that Marquardt was able to accumulate such a large number of miles within and around the Crivitz area. The round-trip mileage for the week should be approximately 320 miles, leaving 1,149 miles unexplained.

The 1995 and 1996 calendars contain mileage information similar to that in the 1997 calendar. Therefore, the Tax Court determined Marquardt failed to provide any credible substantiation to meet requirements of IRC Sec. 274(d), therefore the Tax Court upholds IRS' disallowance of the claimed car and truck expenses in each year.

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."

Have a Tax Question?

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

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