

Tax Tidbits



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Vocation

When you look at the meaning of the word “vocation,” it conveys a strong feeling of suitability for a particular career or occupation.



The words trade or profession can easily replace occupation and is one usually accompanied with the words suited, trained or qualified.

Those of you who know me, especially my family, friends and clients, know that I have a strong feeling, a passion for taxes. My wife, Lynn, pointed out to me that I loved to help people and I still do today. That is the most amazing part of this profession. Someone might draw the conclusion that I have no personality, because I am so drawn to such a dry subject matter.

Early in my career, before I became a CPA, I used to moonlight as a tax preparer. Before personal computers, I prepared my clients tax returns manually, printing them by hand on free tax forms that you could get from the post office or by mail order from the IRS. I would save time and money by using carbon paper to make the 2 extra copies of the tax return. For those of you not in the know, you can Google “carbon paper.” I did all of my tax research by poring over reference manuals and tax publications. The Internet would not be invented for years to come.

Vocation is also one’s response to a call from beyond oneself to use one’s strength and gifts to make the world a better place through service, creativity and leadership. My clients are paying strict attention to me!

This year, more than any before, my clients are starting to ask me the “R” word. In 1967, The Beatles released the song “When I’m Sixty-Four.” I was twelve years old at the time and thought about the lyrics. I

could not imagine being “that old.” Well, on September 19, 2019, I turned 64. I still love doing what I do, helping people through the tax maze that has morphed into existence since 1913.

It is not all a bed of roses. Sometimes dealing with new laws and regulations, fitting them to client circumstances, software and computer glitches and now being the governments’ minion with the threat of severe penalties on the preparer, it makes me ponder, “Why?”

The September 2019 issue of *The CPA Journal* is dedicated to the future professionals. These new professionals, the next generation, will shape the professional practice for years to come. Technology and continuing professional education will serve them and their clients well. We can only trust that the fire in their gut burns bright!

Paul E. Hornbuckle, CPA
Vice President of Tax and
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What is Bonus Depreciation?

When you buy personal property such as a car or a computer for your business, which lasts for more than one year, you are required to deduct the cost a little at a time over several years. This process is called depreciation. Depending on the property involved, it can take anywhere from 3 to 39 years to fully depreciate the cost of business property.



In an ongoing effort to help small businesses, small business owners have been allowed to claim first year bonus depreciation for qualifying personal property used for business purposes. Using bonus depreciation, you can deduct a certain percentage of the cost of an asset in the first year it was purchased and the remaining cost can be deducted over several years using regular depreciation or a Section 179 deduction.

The Tax Cuts and Jobs Act (TCJA), enacted at the end of 2017, increases first year bonus depreciation to 100%. It goes into effect for any long-term assets placed in service after September 27, 2017 with a recovery period of 20 years or less. The 100% bonus depreciation amount remains in effect from September 27, 2017 until January 1, 2023. After that, first year bonus depreciation goes down as follows:

- 80% for property placed in service after December 31, 2022 and before January 1, 2024.
- 60% for property placed in service after December 31, 2023 and before January 1, 2025.
- 40% for property placed in service after December 31, 2024 and before January 1, 2026.
- 20% for property placed in service after December 31, 2025 and before January 1, 2027.
- 0% for any property placed in service after 2026.

Bonus depreciation is optional; you do not have to take it. Bonus depreciation differs in some important ways from Section 179:

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Time for a Comprehensive Review?

Insurance coverage is designed to protect our most valuable assets, including ourselves, our families and our property. Many changes occur during the course of a year and often the coverage is not updated to reflect those changes.



Outlined are a few key triggers for contacting your insurance agent:

1. **If your family situation changes** – Are you expecting a baby, planning a wedding or adopting a child? You will want to be sure you are protecting your growing family with adequate amounts of life insurance and disability income coverage. Losing a family member through death or divorce should also prompt a review to change beneficiary designations as needed.
2. **When your current insurance policies are about to expire** – If your home, auto, life or health insurance policies are about to expire, schedule an appointment with your agent. As your needs change, so should your coverage. Your agent can help you review your current coverage, what you need and want to protect and offer alternative options if applicable.
3. **Once your children have matured to driving age** – This is an exciting time for both parent and child as both have reached another level of independence; however, when you have a new teen driver, adequate auto coverage is a must. This is an important time to contact your agent. Whether your child is heading to college or has recently graduated, it is also time to consider renter's insurance. Personal property and liability protection are typically provided under this coverage. Discuss the amount of coverage needed to protect your child's new home.
4. **When you decide to start a business** – Whether you're renting office space or opening a home based business, include a thorough insurance review in your business planning process. Depending on your operation and the size of your business, you will likely need to consider a property and liability policy as well as a commercial auto policy. If you have employees, you will also need workers compensation coverage. If you are working from home, be sure to review your homeowner's policy to confirm that your business and equipment are fully covered.
5. **If you remodel your home** – Upgrading a home will undoubtedly increase the replacement cost. If you move and downsize, you may be over insured. If you move into a larger home, you may be under insured. In all three cases, you'll want to review your coverage to be sure you are adequately protected.
6. **When your employment status changes** – In today's ever changing healthcare

environment, protecting your family's health can be a challenge. Examples include: your current healthcare plan is up for renewal and the plan is changing or employee's contributions are increasing, you've started a new job or you've been downsized and need to secure new coverage. In each scenario, it's important to take the time to compare plan features against your family's current or anticipated needs.

7. **Once you've decided to retire** – During the retirement preparation process, make sure you know how your employer handles health insurance coverage once you're Medicare eligible.

These are just a few critical times that you will want to review your insurance coverage. If you would like to schedule a comprehensive personal review of your insurance coverage, please contact us today!

Suzanne M. Valicenti
President/CEO



Depreciation

(continued from Page 1)

- The asset is not subject to an annual dollar limit.
- The asset does not need be used over 50% of the time for business, unless it is "listed property" such as automobiles, cameras and certain other personal property.
- The asset is not limited to annual business profit.
- The asset does not need to be new; it can be a used asset that is placed in service within the tax year.

Additionally, bonus depreciation can push the taxpayer into a net operating loss, but Section 179 cannot. Unlike bonus depreciation, any Section 179 deduction elected that is not allowed due to income limitation is carried forward to future years.

The TCJA eliminated the 15-year Modified Accelerated Cost Recovery System (MACRS) property classifications for qualified leasehold improvement property, qualified restaurant property and qualified retail improvement property. Those property classifications are no longer in effect for property placed in service after 2017; therefore, those items do not qualify for bonus depreciation.

You should discuss the options with your tax preparer to see what option is best for your tax situation.

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529 Plan Distributions

Many taxpayers establish 529 plans to help save money for college expenses. When you start withdrawing from the 529 plan, you need to be aware of some situations that could create taxable income. Distributions can only be used for qualified education expenses such as tuition and fees, room and board for students enrolled on at least a half-time basis, textbooks, computer equipment and necessary supplies or necessary supplies for special needs students. As of January 1, 2018, qualified expenses can also include up to \$10,000 in tuition at private, public or religious elementary, middle and high schools, per year, per beneficiary.

A non-qualified distribution is a distribution that is used for something other than qualified education expenses. Examples of non-qualified expenses include transportation, insurance, student loan repayment or extracurricular activities. If there is a non-qualifying distribution, you will need to report the income and pay a 10% penalty tax on the earnings portion of the non-qualified distribution. The principal portion of your 529 withdrawal is not subject to tax or penalty.



There is legislation, H.R. 1994 - Setting Every Community Up for Retirement Enhancement Act of 2019 (The Secure Act) that has passed the House of Representatives. The bill is still waiting for Senate approval. If passed, this would expand the qualified education expenses to include registered apprenticeships, homeschooling and up to \$10,000 of qualified student loan repayments.

Taxpayers should be careful not to withdraw from a 529 account more than the qualified education expenses for the year. The excess is a non-qualified distribution. Additionally, distributions from a 529 Plan must match up to the qualifying expenses in that same year. For example, if you pull money out of the 529 Plan in December but do not pay the tuition bill until January of the following year, you could run the risk of not having enough qualifying education expenses in the year that the distribution was taken. This would create a non-qualifying distribution.

If you claimed an American Opportunity Tax Credit or a Lifetime Learning Credit, you must deduct the tuition expenses used to calculate those credits from the qualified education expenses. For example, if you took a \$10,000 distribution from your 529 account to pay for tuition and also claimed \$4,000 of tuition expenses for the American Opportunity Credit, you would have a non-qualified distribution of \$4,000 unless you could come up with \$4,000 of additional qualifying education expenses such as room and board.

What can you do if you discover that you took out too much from your 529 plan? One solution is to roll the excess into a different 529 plan if you are within the 60-day rollover window and you have not rolled over that child's 529 account within the prior 12 months. If you are outside of the 60-day window, you can look to prepay next year's expenses as long as you are in the same calendar year. Once you are in the new calendar year, you are out of luck. The good news is the 10% penalty is waived if the non-qualified distribution is caused by the tax credit adjustment. Additionally, the penalty is also waived if the student receives a scholarship, dies or enrolls in a U.S. service academy.

If your child decides not to go to college or there are funds remaining in the 529 plan account, withdrawing the funds for non-qualified expenses could create taxable income and a 10% penalty. Instead, you could change the beneficiary to another qualifying individual. Eligible family members include the original beneficiary's siblings, parents, cousins, nieces, nephews, aunts, uncles, grandparents, spouse and children. You could also keep the funds in the account until you are sure they would never be used for qualified education expenses. The benefits of a 529 account don't expire by a certain time or when the beneficiary reaches a certain age.

Elizabeth A. Zarnoch, EA
Tax and Accounting Manager

Connected

Investment decisions should never be made in isolation. Strategies used in one account can have dramatic effects on other financial areas of your life. Here are a few examples of how your financial life may be interwoven:



Say you need to generate a loss in your taxable account, so you sell shares of company ABC. ABC is a great company though, so you buy the shares back in your tax-advantaged account within thirty days. Even though the shares are in separate accounts (with separate tax treatments), you won't be able to realize any losses under "wash sale" rules. Takeaway:

If you want to realize a loss, make sure you are comfortable with being without those shares for at least thirty days across all accounts.

If you currently have student loans issued by the government, you could be on an Income Based Repayment Plan. The "income" part that's used for the calculation is called "discretionary income" and is calculated by taking your Adjusted Gross Income (AGI) minus 1 ½ times the regional poverty level. AGI is your gross income from wages and other income minus some deductions. To note, two important choices can change AGI: capital gains and qualified retirement plan contributions. Capital gains can increase AGI in a given year, and qualified retirement plan contributions can reduce AGI. The lower your AGI, the lower your payments might be. Takeaway: Understand how income based

repayments are calculated and then maximize the power of your money through planning.

If charitable giving is important to you, there are two potential benefits that you may not be aware of. First, if you are over 70½ years old and are required to take minimum distributions, those funds can be given tax free to a charity of your choice, but those funds must be sent directly to the organization from your retirement account. Additionally, if you are using the standard deduction, consider giving appreciated stock in lieu of cash. Cash contributions are only deductible if you itemize and there are limits to the deduction. Takeaway: If charitable giving is important to you, by being strategic, you can give even more.

Matthew L. Melott
Security Analyst/Trader

Taxpayer First Act

The Taxpayer First Act (H.R.3151 – 116th Congress) became law on July 1, 2019. The bill revises provisions relating to the Internal Revenue Service (IRS), its customer service, enforcement procedures, cybersecurity and identity protection, management of information technology and use of electronic systems.

In all, there are 41 amendments to the 1986 Tax Code. This article will cover six of the amendments covered in this bill. It is my opinion that these six points have a direct impact on a large portion of taxpayers.

The first amendment to be covered is Section 1001 – Establishment of Internal Revenue Service Independent Office of Appeals. The purpose and duties of the office are to resolve Federal tax controversies without litigation on a basis which is fair and independent of the Government and the taxpayer. The office will promote a consistent application and interpretation of and, voluntary compliance with, the Federal tax laws and has the goal of enhancing public confidence in the integrity and efficiency of the IRS. The new law establishes through statute that the IRS office is independent. The law directs that the IRS Appeals can have independent advice from the IRS Chief Counsel. Taxpayers are able to access case files and establish the rights of the taxpayer to protest, if denied, the right to go to Appeals. The new law lays out the procedures for protesting the denial of an appeal request. This is all brand new and it will be interesting to see how taxpayer protests are handled in practice and Congress (as well as the newly independent IRS Appeals office) needs to brush back IRS efforts

to attempt to strong-arm their agenda into a taxpayer's meeting with IRS Appeals.

The next amendment deals with a reform of procedures for contact with third parties. This provision can be very important as a protection to taxpayers, especially small business owners. The IRS reaches out and contacts third parties (such as banks, customers, contractors, etc.) for information, instead of first contacting the taxpayer. Congress is hereby requiring the IRS to provide reasonable notice of a third party summons in advance to the taxpayer.

On July 31, 2019, our government and the taxpayers lost a great advocate – Nina Olsen. Ms. Olsen retired from her post as National Taxpayer Advocate. Ms. Olsen's position was to police the IRS and to report to Congress directives to correct policies, procedures and problems within the IRS. Provision section 1301 of the new Act has Congress giving more bite to the Advocate's issuance of Taxpayer Advocate Directives (TAD) which deals with systematic problems that taxpayers are seeing and experiencing. The new rule puts into place a situation when a TAD is issued by the Advocate. The IRS must comply within 90 days. The law does allow for modification or rescission, but the Advocate can appeal to the Commissioner and the Commissioner must ensure compliance with such directive as issued or provide reasons for modification or rescission. As for this provision, a new sub-clause was added that calls for a reporting to certain committees of Congress regarding directives not honored by the IRS within 90 days.

Among the many reforms that deal with identity theft is one, section 2006, that calls for the establishment and implementation of procedures to ensure that any taxpayer whose return has been delayed or otherwise adversely affected due to tax related identity theft has a single point of contact to the IRS throughout the processing of the taxpayer's case. This ends dealing with a different person every time a taxpayer calls the IRS.

One of the most practical improvements brought about by the law is the establishment of an Internet website or other electronic media, with a user interface to (1) prepare and file Form 1099, (2) distribute 1099 forms to recipients other than the IRS and (3) maintain a record of completed, filed and distributed Forms 1099. This is all supposed to take place no later than January 2, 2023. As a fellow taxpayer, I think that it should be mandated by January 1, 2021. Third party reporting has demonstrated tax compliance at a high level.

The final provision that the new law includes deals with a penalty that is assessed upon non-filers. Section 3201 of the new law increases the penalty for failure to file from the lesser of \$205 or 100% of the tax amount to \$330 or 100% of the tax amount. This section applies to returns required to be filed after December 31, 2019.

I applaud the government for passing a law that deals with so many issues that affect many Americans and tax compliance.

Paul E. Hornbuckle, CPA
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Please note that our Tax and Business Services Department, our Insurance Division and our Investment Advisors are available to answer any questions that you may have regarding the articles in this publication. We look forward to hearing from you.

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