A look at 2018 tax return points

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Before we begin discussing 2018 returns, I'd like to start with some items that can affect business returns.

Depreciation is a big deal for 2018 because of two factors: First, businesses can deduct as depreciation ALL new purchases of assets. For the first time, used assets will qualify for the deduction. Second, Section 179 acquisitions can be selected for up to $1,000,000 of new assets and includes real property improvements for the first time (roofs, air conditioning, security systems, etc.) Note that Section 179 is limited to the profit of the company. First year writeoffs do not have that problem.

Automobiles - For 2018, the depreciation of regular autos is $18,000 for the first year, $16,000 for the second year, $9,600 for the third year and $5,760 thereafter. Vehicles weighing more than 6,000 pounds are not restricted and therefore businesses can expense the entire cost in the year of purchase.

Mileage - For 2019, business mileage in lieu of depreciation and auto expenses is 58 cents per mile. An increase of 3.5 cents over 2018. The other allowances are 20 cents per mile for medical trips and 14 cents per mile for charity. Remember that all deductions of itemized business expenses have been eliminated from Schedule A of form 1040; those deductions are limited on personal returns to those able to file Schedules C, E or F.

In prior articles we've mentioned that the new "C" corporate tax rate is a flat 21 percent, which means that small corporations formerly operating within the 15 percent bracket will actually incur a tax increase. Additionally, entertainment (sporting event tickets, theater and social clubs) has been eliminated as a tax deduction, but 50 percent of business meals may still be deducted. Food served at events must be billed separately to be deductible.

In the last article featured in the Fall 2018 issue of *The Representor* we covered S corporation taxation. The important thing to remember is that S shareholders active in the business must continue to report reasonable salary on their way to determining the new 20-percent-of-profit deduction.

The changes in the tax law for 2018 have materially affected the presentation on the new personal tax returns (form 1040). The first two pages of the return look like the postcard promised by the administration. The problem is, it doesn't last past the second page.

The first page consists of the information previously at the top of the first page plus the signature section of the second page of the old returns. There are no dollar figures.

The second page is an abbreviated summary of all items of income and expense coming right down to what you owe or have overpaid. This only means that there will be a lot of schedules to attach to even slightly complicated returns.

The new Schedule A is still a full page but has fewer items since all miscellaneous deductions subject to a 2 percent floor have been eliminated; deductions for expenses such as business, education, legal and tax preparation, and investment fees are gone. Casualty and theft losses are gone unless certified as a disaster by the federal government; no more losses for a burglary, or a single home fire decimating the finances of a single uninsured family. If you don't insure, don't expect the IRS to bail you out. In addition to state income taxes, real estate taxes and sales taxes are limited to a combined deduction of $10,000.

An interesting, unintended, and as far as I know, unaddressed question arises from the tax limitation. State tax refunds are added back to federal returns in the following year as taxable income as long as the taxpayers received a deduction on Schedule A in the prior year.

Here's the new complication:

Let's say that in 2018, a taxpayer has $6,000 of state taxes and $12,000 in real estate taxes. The limit is $10,000, so the taxpayer has no recourse for the $8,000 overage. What will happen on the 2019 return if the taxpayer receives a $2,000 state tax refund? The most logical choice is that the real estate tax took all $10,000, so there was no benefit received. But the IRS could say that the income tax is recovered first,

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so the whole $2,000 is taxable, or they could adopt a ratio approach — one third of the deduction was income tax related; therefore, one third of the $2,000 refund is taxable. Is it therefore smart to even list the state income taxes on the form if real estate tax exceeds $10,000? I don't know the answer.

With regard to charity, the opportunity exists to bunch charitable contributions between years so that taxpayers can itemize one year and use the standard deduction the following year. An interesting way to achieve this result without causing panic within the charities is to contribute to a self-directed charitable fund. There are a number of these, the oldest is the Fidelity charitable fund. The taxpayer gets a deduction upon contribution, but then has control over when that money is disbursed to the charities; it's a neat way to achieve bunching contributions while evenly doling out the contributions to the charities. ■

WHERE ARE THEY NOW?: Recognizing past leaders

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beginning its fourth transition of ownership and management.

So, at age 86, where is David Locke now…? In a good place!

Where is Harry Paston now…

Reflecting at age 92 on a long and fruitful life, my years as a manufacturers' representative and ERA member stand out as the most rewarding of my several careers.

Following Army service overseas in WWII, I graduated from the University of Wisconsin.

In 1953, Neal Hunter and I founded Paston-Hunter Company, representing consumer and component manufacturers in the Upstate New York market. Our representation of many major manufacturers at a time of tremendous industry growth proved very successful.

Success in the rep business can be attributed to hard work and dedication. But the real credit goes to the "community relationships" among ourselves and dozens of fellow reps throughout the country, unselfishly sharing information, concepts and smart practices we developed through our ERA membership.

Because of this, my participation in the association continued to grow — first at the local chapter level, then at national through participation on committees and the board. Ultimately, I became chairman of the Insurance Trust, helping enlarge member programs. The Trust also participated in acquiring the ERA's Chicago headquarters property at the time.

In 1991, I sold Paston-Hunter Company and moved to Scottsdale, Ariz., embarking on a new career as a vice president of a billion dollar residential, commercial and golf course real estate development company with properties in the U.S. and Europe.

Continuing my concept of community involvement, I served as chairman of the city Planning Commission and chairman of the city Budget Committee among others and participated in Arizona politics. I also became a reserve deputy sheriff on the Maricopa County Lake Patrol. My love of golf propelled me into another leadership role as president of the preeminent Troon Country Club.

Ultimately, my wife Mary Rose (Ro) and I moved in 2012 to Las Vegas to be near two of our daughters. We also have another daughter, a son and one grandson. I continued my community involvement as a volunteer with the Las Vegas Metro Police Department.

Ro and I traveled throughout the world on business and pleasure, which included attending many ERA conferences and meetings. After she passed away in June 2018, I have continued an active independent life, still staying in touch with many friends from my rep days.

Looking back, I can report my participation in ERA helped shape a life "dedicated to sharing." With the many awards, accolades and honors I received, none meant more to me than my 1980 induction into ERA's Hall of Fame! ■