

# Client Bulletin

Smart tax, business and planning ideas from your Trusted Business Advisor<sup>SM</sup>

December 2018

## The new SALT deduction limits will affect home sales

The Tax Cuts and Jobs Act (TCJA) of 2017 sharply raised the standard deduction and placed limits on itemized deductions. In particular, no more than \$10,000 can be deducted in state and local tax (SALT) payments on a single or joint tax return.

As a result, most people will take the standard deduction now and get no tax benefit from their property tax payments. Even those who itemize may get little or no tax benefit from their property tax payments if they also have ample outlays for state and possibly local income tax. The bottom line is that property tax payments will be fully or mainly out-of-pocket expenses for most homeowners — and for many home buyers — with reduced federal tax savings as an offset.

When the TCJA was passed, some observers predicted that this effective cost increase would significantly bring down home prices.

**Example:** John and Mary Smithe pay \$20,000 a year in property tax. They had been in a 28% tax bracket, giving them a \$5,600 (28% of \$20,000) federal tax saving, resulting in a net cost of \$14,400. If this couple sells their home, the buyer could owe the full \$20,000 a year in property tax. This might reduce the home's appeal to buyers, who would offer lower bids than would have been offered in the past.

Broadly, such price declines have not happened. The U.S. House Price Index Report from the Federal House Finance



Agency shows a 6.5% growth in prices from the second quarter of 2017 to the second quarter of 2018. Nevertheless, residential housing markets are very local, and it is likely that the new tax rules are affecting numerous transactions, especially in areas where property taxes are steep.

### For sellers

If you are planning to sell a primary residence or second home, be aware that buyers probably will raise questions about the ongoing property tax they will incur. You should know the amount you're paying now and the amounts you have paid in the past. If the growth rate has been modest, or if your home is taxed less than those in your neighborhood, tell your real estate agent.

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## Southern hospitality

New Jersey has the highest property taxes for a median-priced home in each state, followed by Connecticut and New Hampshire, whereas Alabama and West Virginia have the lowest property taxes.

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## Trusted advice

### Explaining the proposed regulations

- For example, suppose Ann Clark contributes \$20,000 to a state sponsored health or education charity.
- Ann expects to receive a \$14,000 state income tax credit (70% of \$20,000).
- Ann's state tax credit is greater than 15% of her contribution.
- These IRS proposed regulations say that Ann's charitable deduction will be reduced by \$14,000, regardless of when she claims the tax credit.

Then, your agent can use this fact as a selling point.

All homeowners, particularly those who plan a sale, should investigate the possibility of reducing their property tax bill. You should find out the procedure for obtaining a lower assessment in your community and see if you might qualify. Any reduction in annual tax obligation may be worth the effort, from increased cash flow today and a potentially higher selling price tomorrow.

### For buyers

If you are planning to buy a house, know your tax situation. Will you be taking the standard deduction? Will your itemized SALT deductions be capped? You'll know whether you'll get any tax savings from deducting property tax, so you will know what to expect in after-tax costs from a home purchase. If those costs, which are likely to rise in the future, might strain your budget, you can drop your bid price or look for another place with lower property taxes.

### The IRS 15% solution

Taxpayers in high tax states may hope that state "workarounds" will effectively preserve SALT tax benefits and their housing prices. (See the *CPA Client Bulletin*, June 2018.) One tactic has been to create state-run charities to which taxpayers can contribute in return for a credit against state income tax. These contributions would get federal tax deductions, which generally have much higher caps, instead of deductions for state and local tax payments, with lower caps.

In response, the IRS issued proposed regulations on this subject on August 23, 2018. Here, the IRS said that a taxpayer's charitable deduction will be reduced if the anticipated state tax credit exceeds 15% of the contribution. (See the Trusted advice box.) The message from the IRS is that the new SALT deduction rules will be enforced.

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## Did you know

Defining "ultrahigh net worth" as more than \$30 million, the Hong Kong area leads the world, with a wealthy population over 10,000. New York (over 8,800) and Tokyo (over 6,700) are next. Other U.S. cities in the top 10 are Los Angeles (#4), Chicago (#7), San Francisco (#8), and Washington, D.C. (#9).

Source: [wealthx.com](http://wealthx.com)

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## Powers of attorney can be vital documents

Most people realize the importance of a will to help direct the transfer of assets after death. During your lifetime, you also may want to have a power of attorney (POA) for convenience and asset protection.

The person who creates a POA is known as the principal. In the POA, an agent (known as the attorney-in-fact) is given the authority to act on the principal's behalf. POAs come in different forms with different purposes.

### General POA

A *general* or *regular* POA gives the agent the broad ability to act for the principal. This type might be useful

when the principal will be unable to act on his or her own behalf for some reason. Someone in the military, for example, might name an agent to handle financial affairs during the principal's overseas assignment.

### Limited POA

As the name suggests, these special POAs are not open-ended. There could be a specified time period when you're unable to act on your own behalf. Alternatively, a limited POA could be effective only for a designated purpose, such as signing a contract when you can't be present.

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## Durable POA

Regular or limited POAs may become void if the principal loses mental competence. Unfortunately, that can be the time when a POA is needed most: when assets could be squandered because of poor decisions.

Therefore, a durable POA can be extremely valuable because it remains in effect if the principal becomes incompetent. The agent can make financial decisions, such as asset management and residential transactions. If a durable POA is not in place, the relatives of an individual deemed to be incompetent might have to go to court to request that a conservator be named, which can be a time-consuming and expensive process with an uncertain outcome.

## Springing POA

Some people are not comfortable creating a POA while they are still competent, yet an individual who loses mental capability cannot legally

create a POA. One solution is to use a springing POA, which takes effect only in certain circumstances, such as a doctor certifying that the principal cannot make financial decisions. Note that some states may not allow springing POAs, and some attorneys are skeptical about using them because the process of getting a physician's timely certification might be challenging.

## Health care POA

The POAs described previously empower an agent to make financial decisions. A health care POA is different because it names someone to make medical decisions if the patient cannot do so. The agent named on a financial POA could be someone trusted with money matters, whereas someone with other abilities and concerns could be appropriate for a health care POA.

## Powerful thoughts

As indicated, the agent you name on any POA should be someone you

trust absolutely with your wealth or your health. Married couples are best protected if both spouses have their own POAs.

In addition, you might have to check with the financial firms holding your assets before having a POA drafted. Some companies prefer to use their own forms, so a POA drafted by your attorney might not be readily accepted. Moreover, financial institutions might be reluctant to accept a very old POA, so periodic updating can be helpful.

When creating a POA, you should make it clear that the power applies to retirement accounts such as IRAs. Your agent should have the ability to execute rollovers and designate beneficiaries, for example. An attorney who is experienced in estate planning can help you obtain a POA with the power to help you and your loved ones, if necessary.

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## How to handle year-end bonuses



Rewarding employees at the end of the year can brighten up their holidays and set the stage for your company to enjoy a good start to 2019. Some forethought and careful communications can avoid problems.

A key first step is to check your company's financial condition. Year-end bonuses can boost morale, but

you shouldn't pay out more than your company can afford. On the other hand, if your business is doing well, some holiday generosity might help it do even better.

### Spread the word

Once you have a budget for bonuses in mind, tell your employees what to expect. Let them know as soon as possible so they can plan accordingly.

Long-time employees probably will expect the type and size of bonus they have received in the past. If that's not going to be the case, explain the reason for the shortfall. Consider replacing any lack of cash with extra time off, if that's practical.

Among possible methods of calculating bonuses, giving a flat amount to all full-time workers might be the simplest approach. Another tactic is to give everyone a percentage of their salary; the percentage might escalate for people with management responsibility or special tasks. Performance-based bonuses, which can be sizable, may motivate key employees and could help to retain valued workers.

### Tax treatment

Cash bonuses are compensation for employees, so employment taxes apply. For income tax withholding, employers have some options about how to handle supplemental pay such as bonuses. Our office can help

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you choose the right method and properly comply with all the rules. If you use an outside payroll provider, that company should be notified in advance of your plans.

At many companies, cash bonuses might be a few hundred dollars per employee. Some firms, though, pay much larger bonuses as part of some workers' compensation package. For ample bonuses, it may

be advantageous to deduct them for 2018, but defer payment as late as March 15, 2019.

To qualify for this deduct-now-pay-later opportunity, your company must be on the accrual, rather than the cash, basis of accounting. You must spell out the recipients and the amounts involved, perhaps in corporate minutes, by year-end 2018. S corporation shareholders and over-

50% C corporation shareholders don't qualify for this tax benefit.

At some companies, a pool of money for bonuses can be deducted at year-end without an employee-by-employee allocation, yet payments can be delayed until mid-March. Several rules apply, such as maintaining the amount declared at year-end. Again, our office can guide your firm through the complexities.

## Tax calendar

### DECEMBER 2018

#### December 17

**Employers.** For Social Security, Medicare, withheld income tax, and nonpayroll withholding, deposit the tax for payments in November if the monthly rule applies.

**Corporations.** Deposit the fourth installment of estimated income tax for 2018.

### JANUARY 2019

#### January 15

**Individuals.** Make a payment of your estimated tax for 2018 if you did not pay your income tax for the year through withholding (or did not pay enough in tax that way). Use Form 1040-ES. This is the final installment date for 2018 estimated tax. However, you don't have to make this payment if you file your 2018 return and pay any tax due by January 31, 2019.

**Employers.** For Social Security, Medicare, withheld income tax, and nonpayroll withholding, deposit the tax for payments in December 2018 if the monthly rule applies.

#### January 31

**All businesses.** Give annual information statements (Form 1099s) to recipients of certain payments you made during 2018. Payments that are covered include (1) compensation for workers who are not considered employees; (2) dividends

and other corporate distributions; (3) interest; (4) medical and health care payments; (5) rents; (6) royalties; (7) profit-sharing distributions; (8) retirement plan distributions; (9) original issue discounts; (10) prizes and awards; (11) cash payments for fish to anyone in the trade or business of catching fish; (12) debt cancellations (treated as payment to debtor); (13) payments of Indian gaming profits to tribal members; and (14) cash payments over \$10,000. There are different forms for different types of payments.

**Employers.** Give your employees their copies of Form W-2 for 2018.

For nonpayroll taxes, file Form 945 to report income tax withheld for 2018 on all nonpayroll items, such as back-up withholding and withholding on pensions, annuities, and IRAs.

For Social Security, Medicare, and withheld income tax, file Form 941 for the fourth quarter of 2018. Deposit or pay any undeposited tax. If your tax liability is less than \$2,500, you can pay it with the return. If you deposited the tax for the quarter in full and on time, you have until February 11 to file the return.

For federal unemployment tax, file Form 940 for 2018. If your undeposited tax is \$500 or less, you can either pay it with your return or deposit it. If it is more than \$500, you must deposit it. However, if you already deposited the tax for the year in full and on time, you have until February 11 to file the return.



The unified voice of AICPA and CIMA

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December 2018

## Citation and resource guide

### The new SALT deduction limits will affect home sales

The proposed regulations on SALT workarounds can be found in the Federal Register for 8/27/18 on page 43563, at [www.gpo.gov/fdsys/pkg/FR-2018-08-27/pdf/2018-18377.pdf](http://www.gpo.gov/fdsys/pkg/FR-2018-08-27/pdf/2018-18377.pdf).

### Powers of attorney can be vital documents

The Financial Industry Regulatory Authority provides tips on using a power of attorney at [www.finra.org/investors/alerts/power-of-attorney-and-your-investments](http://www.finra.org/investors/alerts/power-of-attorney-and-your-investments).

### How to handle year-end bonuses

The U.S. Small Business Administration reveals five things to know about year-end bonuses at [www.sba.gov/blogs/5-things-know-about-year-end-bonuses](http://www.sba.gov/blogs/5-things-know-about-year-end-bonuses).

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## Practice development tip

### Deliver year-end bonuses to clients, too

The information in the article, "How to handle year-end bonuses," in this month's issue of the *CPA Client Bulletin* applies to CPA firms, as well. Holiday gifts are welcomed by all workers, closing one year on a positive note and preparing the firm for a strong beginning in the New Year... throughout tax season!

You also should think about making your firm memorable to clients this holiday season. Greeting cards and 2019 calendars are fine, but they only go so far in boosting your image. As a true year-end bonus, give your clients some actionable information.

Using electronic formats or hard copies, deliver some of the best general information you can create. When it comes to tax, you might explain the advantages of donating appreciated securities to charity or giving appreciated assets to loved ones, especially if they can sell and remain in a 0% tax bracket.

On the family finance side, you could point out the advantages of paying down debt that has nondeductible interest. Explain the benefits of staying within the annual gift tax exclusion, now \$15,000. Whether it's retirement planning, estate planning, or long-term care, there is no shortage of areas that can offer opportunities for savvy suggestions.

As an example of how to go about this client gift, ask each partner and associate in your firm to deliver one or two tax tips. Or, ask them to give (without naming names) an example of how they saved a client substantial amounts of tax in 2018.

Other ideas for content might occur to you. Once the content is in hand, ideally, well before year-end, you can decide how to deliver it to clients with an appropriate message. Such a holiday gift may help clients make a resolution to rely on your firm for astute advice in the new year.

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# Practice development and management resources from the AICPA

For more information or to order, log on to [aicpastore.com](http://aicpastore.com) or call 888.777.7077.

## AICPA Personal Financial Planning Summit – January 7–9, 2019

Join us January 7–9, 2019 in Rancho Palo Verdes, CA. The AICPA PFP Summit is a deeper dive into critical topics for personal financial planners and CPAs. This is a gathering of the most curious and experienced minds in wealth management to discuss challenging topics in the profession. Be a part of collaborative, facilitated discussions by leading practitioners.

If you have any questions prior to registering, please call 888.777.7077 or visit [www.aicpastore.com/PFPsummit2019](http://www.aicpastore.com/PFPsummit2019) for more details.

## AICPA Tax Membership Section

For CPAs with tax practices who want the tools, technologies, and peer interaction that lead to enhanced service delivery. Over 25,000 CPAs have already joined the AICPA's popular Tax Section. The section keeps members up to date on tax legislative and regulatory developments.

[Item no. 11-NEW – AICPA Member \$82.50, Nonmember \$99.00]

## AICPA PCPS/CPA.com MAP Survey National Summary

The AICPA's Private Companies Practice Section (PCPS) partnered with CPA.com on the National MAP (Management of an Accounting Practice) Survey, which was fielded from mid-May through July 2016. This summary provides financial and other key benchmarking data from the survey. This product will provide you with comparative benchmarking data relative to firm size and region that can help you create strategic goals and maximize your firm's performance.

[Item no. PCPSSUR03 – AICPA Member \$200.00, Nonmember \$300.00]

## Management of an Accounting Practice eHandbook

This is your go-to resource for all things practice management. Streamlined online guidance for easy reading and quick reference on the topics you care about: employee compensation and benefits, staffing, disaster recovery, firm organization, benchmarking, strategic planning, and more!

[Item no. MAP-XX – AICPA Member \$149.00, Nonmember \$189.00]

## MAP On Track

Often, practitioners and small- to medium-sized firms find it challenging to stay on top of firm management responsibilities. The new Management of an Accounting Practice On Track (MAP On Track) will help keep you organized. This new scheduler is easy to download and functions as an add-in to Microsoft Outlook, adding tasks to keep your firm running throughout the year. As an added bonus, within the automatically scheduled tasks you'll find useful links to relevant content within the comprehensive MAP eHandbook as well as PCPS tools that can inform your next steps.

[Item no. MAPTKD – AICPA Member \$229.00, Nonmember \$289.00]

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