



HONECK ·
O'TOOLE

...where people count

revenue news

Ideas to help small businesses and individuals maximize income while minimizing taxes.

2nd Quarter 2018

SWEEPING CHANGES FOR BUSINESS TAXES: WE'RE ON IT!

The new tax code §199A, **Deduction for Qualified Business Income (QBI)**, introduces a massive change for businesses this year.

Why the big change? The government is trying to level the playing field for small businesses, to coincide with the corporate tax-rate reduction to 21%.

The new code is very complicated. To help our clients sort through the implications, the team here at Honeck O'Toole is planning to review all our business entities (clients) this summer and fall to see how it will impact them. This will likely include you if you're a business client of ours.

To begin understanding the new code, we encourage you to review this article and then call us if you have questions.

First, what is considered a qualified trade or business under this code?

According to the IRS, "The term trade or business generally includes any activity carried on for the production of income from selling goods or performing services." However, under §199A this does not include "a specific service trade or business" involved in performing services in the fields of:

- Health
- Law
- Accounting
- Actuarial science
- Performing arts
- Consulting
- Athletics
- Financial services
- Brokerage services
- Any trade or business where the principal assets of such trade or business is the reputation or skill of one or more of its employees

They can still get the deduction but, more limits apply.

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SMALL BUSINESS? LET'S REVIEW YOUR SITUATION.

If there ever was a year to review your business setup and tax situation, this is it. Starting in 2018, sweeping business tax law changes may affect your income and deductions.

We provide small business advisory services and work with business owners on a daily basis. If you need anything — from reviewing lease terms to planning for an owner's retirement — we're here to help you make the best choices so your business is successful.

Contact us for small-business advising services.

207-774-0882 | Email: info@honeckotoole.com

Your Honeck O'Toole Team

FRIDAY *Summer Hours* AT HONECK O'TOOLE

Since everyone worked extra hard this past tax season, we're rewarding their efforts with "Summer Fridays." This means two things:

- Fridays are "business casual" after Memorial Day until Labor Day. And,
- Beginning June 29th through Labor Day weekend, we'll be closing the office on Fridays. Of course, clients come first! So, if those Fridays are the only time you can meet with us, we'll be here. Just let us know.

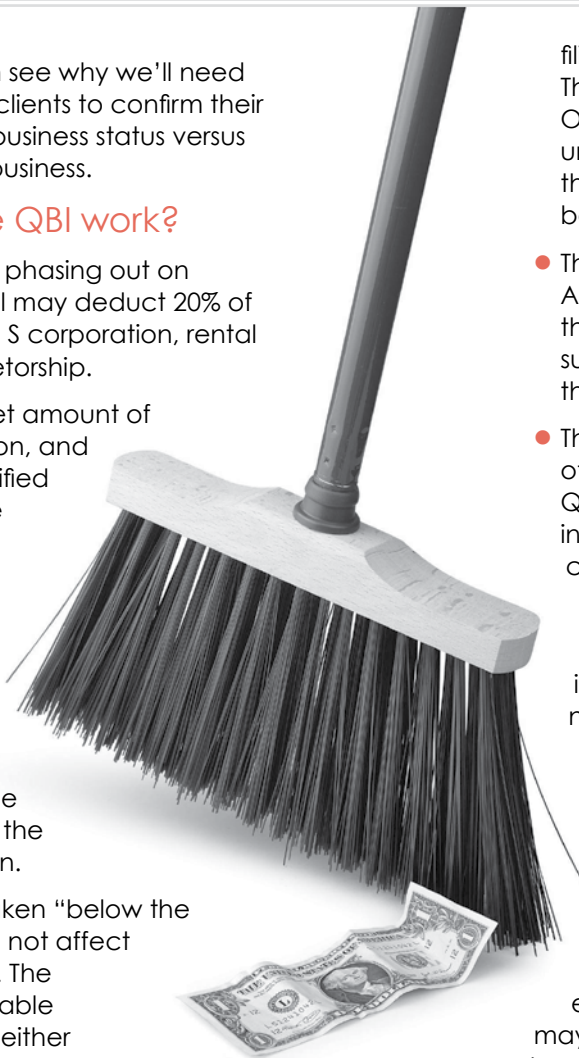
Many thanks
for kindly working with us around our summer Friday schedule.



Right off the bat, you can see why we'll need to review all our business clients to confirm their status: qualified trade or business status versus specific service trade or business.

Next, how does the QBI work?

- Beginning in 2018 (and phasing out on 1/1/2026), an individual may deduct 20% of QBI from a partnership, S corporation, rental property or sole proprietorship.
- QBI is defined as the net amount of income, gain, deduction, and loss related to the qualified trade or business of the taxpayer (as defined above) conducted in the United States. The net amount is after any reasonable compensation and guaranteed payments received by owners. Start with the net profit to determine the potential QBI deduction.
- The QBI deduction is taken "below the line," and therefore will not affect adjusted gross income. The deduction will be available to taxpayers who take either standard or itemized deductions.
- Qualified business income does not include income, deductions, or losses related to investments, dividend-related payments, or interest income.
- There's also a wage limit if your personal taxable income is above the \$315,000 threshold (if married



filing jointly) or \$157,500 for all other taxpayers. The GREATER OF 50% of wages in the business OR 25% of the wages plus 2.5% of the unadjusted basis of qualified property used in the business. (Many small-business clients won't be affected by this.)

- There's also a taxable income limitation. An individual taxpayer can't deduct more than 20% of personal taxable income after subtracting net capital gains, but before using the §199A deduction.
- There's also a limitation for high-income owners of a specified service trade or business. The QBI deduction phases out starting at taxable income of \$315,000 / \$157,500 thresholds and is completely phased out at \$415,000 / \$207,500.

It is important to note, the deduction reduces income subject to federal income taxes, but not self-employment taxes or AMT (Alternative Minimum Tax).

Confused yet? We imagine you might be, and we don't blame you! These points are just a few highlights of the new tax code. As we said, it's very complicated and will affect everyone differently.

You can see why we'll need to examine each client's business to determine how they may qualify for the QBI deduction. We'll be in touch with you as needed. 📞

QUESTIONS?

To schedule an appointment, call us at 207-774-0882 or email us at info@honeckotoole.com.

HSA LIMITS CHANGING FOR 2019

If you qualify for a Health Savings Account (HSA) — the tax advantage account where you can save on medical expenses — take note. The account contribution limits will increase in 2019: \$3,450 (single), up \$50; and \$6,900 (family), up \$100.

HSAs can be a smart way to manage health expenses because the money is

invested (earning interest) until you use it. And, you don't have to spend all the money in one calendar year. You can roll it into the next year. (Keep in mind that HSAs are only available if you have a high-deductible health insurance plan.)

While \$50 or \$100 extra in 2019 may not seem like much, every penny counts.

We recommend taking full advantage of this tax-saving account. 📞

If you have questions, call us at 207-774-0882 or email us at info@honeckotoole.com.



AVOID TAX SURPRISES WITH THE IRS WITHHOLDING CALCULATOR

The Tax Cuts and Jobs Act changes for 2018 may affect you if you itemize deductions on your tax return Schedule A (Form 1040) each year. To help make sure you're not stuck paying more than expected next April, you can check your payroll withholding with the IRS Withholding Calculator: <https://apps.irs.gov/app/withholdingcalculator>

When you go to this official IRS site, you'll be prompted to enter your filing status, dependents, annual income, 401(k) tax-deferred contribution, planned withholding, etc. (Refer to your

2017 tax return to fill in some of the information.) It does NOT ask for personal information. When you've completed the calculator, you'll receive withholding recommendations for 2018, and you'll want to contact your employer right away if a change is needed. 📄

Questions about withholding?

Call us at **207-774-0882** or email us at info@honeckotoole.com.



MEET LORI CARPENTER,

OUR NEWEST FULL-TIME TEAM MEMBER

We're thrilled to announce that Lori Carpenter has joined our team. Lori worked as a legal assistant at Bernstein Shur from 1998 to 2013, and then as a bookkeeper in their subsidiary title company through 2017. She told us, "In 2012, I decided to try something else, so I started taking accounting classes at USM – then the bookkeeping position opened up at Bernstein Shur."

Lori passed the CPA exam in 2016 and will become certified as a CPA once she has two years of experience. She also has experience in QuickBooks and MS Office. This is Lori's first "real" accounting position, and she's doing an excellent job. Please join us in welcoming Lori to our team! 📄

THE TAX ASPECTS OF RETIRING IN MAINE

You may be surprised to learn this, but according to Bankrate.com, Maine is second in the nation (behind Florida) when it comes to the percentage of residents aged 65 years and over. In the past few years, several major surveys, websites, and publications have named Maine as a top state for retirees. In 2017, CNN Money named Maine as #3 in its list of "The 10 Best States for Retirees," citing

"highest in quality health care" and "lowest crime rate" as two of the many reasons.

We know our beautiful state offers a quality of life that's hard to beat, and Baby Boomers appreciate this. It's one of the reasons the southern Maine real estate market is so hot, and we've seen a growth in companies catering to seniors.

The financial aspects of retiring in Maine can be

challenging, especially when it comes to taxes. But we're here to help you stretch your retirement dollars or plan ahead for a comfortable retirement. 📄

Interesting in exploring ways to save for retirement... and save during retirement?

Call us at **207-774-0882** or email us at info@honeckotoole.com.



DISCLAIMER: Any accounting, business, or tax advice contained in this communication are not intended as a thorough, in-depth analysis of specific issues, nor a substitute for a formal opinion, nor is it sufficient to avoid tax-related penalties. If desired, Honeck O'Toole would be pleased to perform the requisite research and provide you with a detailed written analysis. Such an engagement may be the subject of a separate engagement letter that would define the scope and limits of the desired consultation services.



CLIENT PROFILES

BILL LYONS

US Rafting

If you've never gone whitewater rafting in Maine, perhaps we can convince you to try it this summer. Start by checking out US Rafting, run by Bill Lyons. Why? Because safety is their main concern, but FUN is a close second. They told us that they definitely have the most fun on the rivers.



Bill told us that he started as a customer, rafting on all the different rivers, so he knows how much fun these trips are. He said, "We started out as a small rafting company, with just a handful of friends and family, and each year we continue to grow. Seeing the smiles on our customers' faces is what makes all the behind-the-scenes work worth it!"

When asked what makes his company different from other Maine rafting options, he said, "You're not just a number at our company, we learn your names and you become part of our U.S. Rafting Family. We always say, 'Why raft with them, when you can raft with US'?!"

How's the company doing these days? Bill said, "We are staying a-float! Ha, ha, ha...! More and more people are traveling to us locally throughout New England rather than taking long destination flights." Bill also mentioned that having Honeck O'Toole on their side "is a huge relief off my shoulders knowing how great and easy they are to work with." To sign up for a US Rafting adventure, visit:

www.usrafting.com

CLAUDINE WEATHERFORD

Raven Rocks Resources

Retirement is a foreign word to Claudine Weatherford. So, when she retired from her career and then turned 70 a few years ago, she created a small consulting business that suits her cross-disciplinary background (anthropology/archaeology, folk culture/folk art, and organizational change and behavior), while requiring less than a full-time commitment.



She always enjoyed adventure travel, and trekked in Nepal, Africa, and Central and South America. She told us, "Every adventure aimed to identify local-source contacts and build relationships, creating an inside track to active, culturally rich and educational travel experiences." During the last 15 years, she has consulted part-time for a trekking travel company in Kathmandu, eager to tap into the burgeoning Boomer market, especially the ardent bucket-listers. These activities led to her establishing Raven Rocks Resources (aka Raven Rocks) — which focuses on sparking into action older, wanna-be adventure travelers through hands-on help identifying, designing and developing customized itineraries for bucket-worthy, transformative experiences.

She just launched her website, stepped up her social media efforts, and boosted word-of-mouth marketing. She's slowly building a clientele, but said, "Quite honestly, I prefer to remain selective to keep my workload manageable. It's deeply satisfying to inspire in others a love for adventure, enriched by cultural and educational experiences for transformative personal growth." She also noted, "Creating a part-time business based on the experience economy is the ultimate kind of later-life occupation." To learn more, visit:

www.ravenrocks.com

We welcome your questions about taxes, financial planning, college planning, making the most of QuickBooks, or anything else related to your money.

Call for Assistance Anytime!



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