



HONECK ·
O'TOOLE

...where people count

renews

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

2nd Quarter 2019

“ACT NOW” LESSONS FROM TAX SEASON 2018



In January, we had cautioned you and all our clients that the 2018 tax season was going to be complicated due to the Tax Cuts and Jobs Act (TCJA), passed in December 2017. We knew we'd need more time interpreting the unprecedented number of changes affecting just about everyone.

And boy, we weren't kidding. Even though we processed our usual number of returns this year (1,138), we collectively spent many more working hours tackling all the different changes this year.

To give you an idea of the extra work involved... our total staff hours from 1/1/19-4/17/19 was 11,805.25. The same date range in 2018 was 10,881.50 hours. We worked almost 1,000 more hours this tax season over last year! If your tax-return invoice was a bit higher than usual, that's why. We needed more time.

Withholding changed dramatically in tax year 2018.

The TCJA changed federal tax withholding rates for 2018, with several factors affecting how much you should have been withholding from your paycheck (according to the IRS):

- Reduced tax rates
- Elimination of personal exemptions

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MAKE TIME FOR TAX PLANNING NOW

Perhaps your 2018 tax return wasn't what you expected. Or your refund was smaller than expected... if you received one. To help you avoid any surprises next April and keep more of your hard-earned money, let's work together now. We can review your small business finances, personal income, withholding, and anything else affecting your annual taxes.

Contact us now for a strategic review of your tax situation.

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 July 5th through Labor Day weekend, we'll be closing the office on Fridays. However — clients come first! If Friday is the only day 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.



“ACT NOW”... CONTINUED

- Increased standard deductions: \$12,000 for singles, \$18,000 for heads of households and \$24,000 for married couples filing jointly
- Increased child tax credit: \$2,000 per qualifying child and a new \$500 credit for other qualifying dependents
- Changes to itemized deductions

So, if you didn't adjust your withholding with the Payroll Department where you work to reflect this change... your withholding would automatically have gone down. This meant your paychecks were a bit higher throughout the year... but you ended up owing more taxes in April. Maybe you even had to pay taxes for the first time!

ACT NOW LESSON #1:

Adjust your withholding now, for tax year 2019

To avoid surprises in April 2020 check your 2019 tax withholding now with the IRS Withholding Calculator: <https://apps.irs.gov/app/withholdingcalculator/>.

Don't worry about entering personal information. It simply calculates the numbers based on information you enter on the website: your filing status, dependents, annual income, 401(k) tax-deferred contribution, planned withholding, etc. (Refer to your 2018 tax return to fill in some of the information.) When you've completed the calculator, you'll receive withholding recommendations for 2019. Contact your employer right away if a change is needed.

Another “surprise” was the use of the standard deduction versus itemized deductions.

For tax year 2018, we found that more clients than ever used the standard deduction and didn't itemize.

That's because the TCJA nearly DOUBLED the standard deduction threshold for each filing status type. For instance:

- If you filed as Single or as Married Filing Separately, your standard deduction jumped from \$6,350 in 2017 to \$12,000 in 2018.
- If you filed a joint return with your spouse, the standard deduction increased to \$24,000, up from \$12,700 at the end of 2017.
- If you filed as Head of Household, you could claim an \$18,000 standard deduction on your tax returns, up from \$9,350.

In addition, several itemized deductions were eliminated in 2018 (tax prep fees, investment management fees, unreimbursed employee expenses, home equity loan interest, and medical expenses under 10% of your total income, to name a few).

Therefore, depending on your income and filing status, it would have been more beneficial to take the standard deduction... which many of our clients chose to do.

HOWEVER, it's not always beneficial to take the standard deduction. It all depends on your financial circumstances.

ACT NOW LESSON #2:

Choose the best deduction plan now for tax year 2019

Right now is the best time to review your anticipated financial activities for the year. That's because your itemized deductions may exceed the standard deduction, based on your filing status and expenses.

If you're not sure how to calculate the difference and see which is the most advantageous approach for you, schedule an appointment.

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



THE IRS PROVIDES INCORRECT CAPITAL GAINS WORKSHEETS

On May 21, we discovered that the IRS had the wrong instructions for calculating some capital gains on the forms for 2018. So, they gave the software companies the wrong instructions too. Here's a note from an alert issued by Intuit, makers of QuickBooks®: “The IRS has informed us that the Schedule D Tax Worksheet for Forms 1040 and 1041 were not properly taxing certain capital gains at the new lower 2018 tax rates, but instead the worksheet was taxing them at their maximum rate of 25% or 28%.”

If this affects you, we've been informed that the IRS will review returns filed prior to May 16 and determine any needed corrections. “These taxpayers do not need to file an amended return, call the IRS or take any other action at this time.” 📢

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.

IMPORTANT! TAX DEDUCTIONS AND YOUR HOME

If you're selling or renting a home in 2019 — or if you own a vacation home — you'll want to know about these important tax considerations from TCJA.

Under current tax laws, you can exclude up to \$250,000 (\$500,000 for certain joint filers) of any gain you realize when you sell a principal residence. That is, if you owned and used the property as your primary residence for at least 2 years out of a 5-year period before the sale.

If you sold the house BEFORE that 2-year exclusion period, you'll pay tax on the gain. Simple enough. Or is it? You still may be eligible to reduce taxes on the gain if you needed to sell under these circumstances and others:

- You changed your place of employment and needed to relocate

- You needed to move for a health reason
- Your home was damaged or destroyed due to a natural disaster
- You got divorced or legally separated
- You used part of your home as a rental property within your home (think Airbnb or renting out a room for a year)
- You used part of your home for business or rental property... and it was in a building SEPARATE from within your dwelling unit (such as a separate guest house or garage)

The guidelines can be complicated, so be sure to ask us about your specific circumstance if you sold your home before the 2-year exclusion period.

Your home's sale and taxes related to business or rental use

The home sale gain exclusion is also affected by the way you used your property when you owned it. For instance...

- You used part of your home as a business, and that property was within your dwelling unit (an office space within your home)

The tax rules can be complicated, and you'll need to check on your eligibility to exclude capital gains taxes if possible.

Changes in your mortgage interest deduction

Effective starting in 2018 through 2025, there's a \$750,000 limitation for married taxpayers on a qualified mortgage interest deduction on your primary mortgage loan. This includes a second home mortgage, also.



The home equity debt interest deduction has been eliminated starting in 2018 and currently through 2025 unless it is used to acquire, construct or substantially improve a qualified residence.

Changes in your vacation home deductions

The TCJA placed new limits on a variety of deductions for second home/vacation home ownership. This includes deductions for property taxes, mortgage interest deductions, home equity debt interest, and home acquisition debt. Several deductions have simply been eliminated, so if you've been counting on that... please check with us to see how these changes affect you. 🏠

If any of these home deductions and exclusions potentially apply to you this year — call us to help you determine your tax situation: 207-774-0882 or email us at info@honeckotoole.com.

30-DAY RULE: PATIENCE, PLEASE! (AND THANK YOU!)

We have a special, heartfelt request for you.

Please be patient with email responses from our team. We're a small business, and we have about 2,000 clients. We do try to respond quickly... but it's not always possible. We might be occupied with managing the practice, dealing with complex tax changes, helping other clients, taking a business trip to sharpen our skills, or taking a much-needed vacation (especially in the summer!).

It's true that during tax season we give up our lives to prepare and submit every return on time. But the rest of the year, we work hard to maintain a work/life balance. It's one of the things that makes our small firm more of a "people place." We're devoted to helping you make the most of your finances with personal attention.

Therefore, when you send us an email with a specific question, we'll try our best to respond as quickly as possible — often within 1-2 days, but it may take a bit longer if we find ourselves hearing from many clients at once. Trust that we will respond as soon as we can!

Many, many thanks for your business, your understanding, and your patience. 🏠



CLIENT PROFILES

DR. DAN RICHARDS

Maine native Dan Richards is a nationally recognized mental health expert and counselor with more than 45 years of patient services. He's a published author of the book, "Building and Managing Your Private Practice," and over 50 articles about therapy, recovery and mental health concerns. He's also a professional speaker who has delivered more than 75 workshops and trainings. And, he's served on several professional boards and was the founder and past president of the Maine Mental Health Counselor Association.



Clearly, Dan is passionate about serving the needs of the mental health community and the professionals who provide care. He said, "I love my work as a therapist and feel extremely privileged to assist my clients in finding ways to overcome obstacles that block them from having healthy lives."

He added, "Life is way too short to be spending endless time and energy worrying or being depressed. We all experience emotional suffering at times" (what he calls "transitions in our lives") but, "If prolonged, it becomes critical to seek counseling for help through those transitional times."

Dan's practice, located in Portland, provides services for loss and grief, trauma, anxiety-related disorders, stress, retirement issues and even discovering one's life purpose. He said, "It doesn't have to be so difficult." Visit his website, <http://drdanrichards.com/>, to learn more about him and what counseling/therapy is all about. 📞

TIPO

Here are the top three reasons to check out the restaurant Tipó at 182 Ocean Avenue in Portland... known as "A neighborhood spot featuring a creative and ever-changing menu of Italian-inspired plates on Portland's Back Cove."

First, their delicious menu includes pizza, pasta, salads, and small plates (hot and cold)... served for dinner Wednesday through Sunday, and for brunch on Saturday and Sunday. Paige Gould, whose husband, Chris, is the Tipó chef, told us, "We do our own spins on traditional Italian food and other inspirations. Generally, most dishes are Italian-inspired, but we'll add something we're just excited about. Chris has a dynamic view of the culinary arts in general – sometimes he just can't help himself."

Second, they deliver! You can order through 2dinein.com – with brunch and dinner delivery in Portland, South Portland, and Westbrook.

Third, they host special events, such as their recent Sardinia and Sicily Wine Dinner. Paige said, "We do wine dinners once a month. Another one, coming up in June, is part of Portland Wine Week."

A few more reasons? They have a great patio for summer dining. There's plenty of parking. And, they take reservations. Visit www.tiporestaurant.com for details, and like their Facebook and Instagram pages for updates. 📱



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

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