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Tax Tips and Highlights for 2018-19

Payroll Tax Issues

In November 2018, you should have received "Your Year 2019 Federal Tax Deposit Requirements" from the IRS, your annual Unemployment Compensation Tax Rate Notice for 2019, and notification from the state if you are required to file unemployment forms and taxes electronically. These notices should be forwarded to your payroll preparer, and a copy to us.

The taxable wage base for Social Security in 2018 was \$128,400 and will increase to \$132,900 for 2019, making the maximum social security tax \$8,239.80 (6.2% for each Employer and Employee). Medicare wages are taxed at 1.45% with no limit. Wages paid by a sole proprietor to a son or daughter under the age of 18 are exempt from social security, Medicare and FUTA taxes (under 21 exempt from FUTA).

Bonus checks are considered earned income and are subject to payroll taxes, as well as **per diem** expense reimbursements. The IRS requires employers to track expense reimbursements in excess of federal per diem rates. For annual wages over \$200,000, the employer must withhold an additional 0.9% of Medicare tax, but does not match it like the 1.45%.

IRS maintains a zero tolerance for incorrect W-2s and 1099s. A **\$260 penalty (up from \$250)** per incorrect form could be assessed against employers whose forms have mismatched names and social security numbers. You can verify names and numbers by registering online at www.ssa.gov/bsa or visiting their website at www.ssa.gov/employer for larger groups. You can no longer verify by phone.

Employee versus Independent Contractor

Under common-law rules, an individual generally is an employee if the company he works for has the right to control and direct him regarding the job he is to do and how he is to do it. Otherwise, he is an independent contractor. Any individual independent contractor (including LLCs & partnerships) receiving compensation of \$600 or more for the year must be issued a 1099-MISC. In addition, ALL attorneys who were paid \$600 or more (including settlements) must be issued a 1099-MISC, as well as anyone you pay Rent to. **Corporate tax returns now have a Y/N question to answer whether or not 1099s were required and filed. A penalty of \$530 (was \$500) per form is assessed, if not filed.**

Code Section 179 and/or Bonus depreciation expensing

The maximum annual expense amount is \$1,000,000, for total annual purchases not exceeding \$2,500,000 on new or used equipment. Bonus depreciation of 100% is available for new or used equipment through 2022, then gradually phases out.

Company Provided Vehicles

Employees and owners are taxed for the personal use of any employer provided vehicle. Specifically, their gross income on Form W-2 is increased to the extent the fair market value of this benefit exceeds the amount paid, if any, by them. This fringe benefit is subject to payroll taxes and should be withheld from the employee's salary by year-end.

2019 Standard Mileage Rates INCREASED

For the business use of a car, van or truck use 58 cents per mile (54.5 cents in 2018). When computing deductible medical or moving expenses, use 20 cents per mile (18 cents in 2017). You may also deduct 14 cents per mile when providing services to a charitable organization (no change from 2018).

Qualified Pension Plan Contribution Limits for 2018 and 2019

There are several employer-sponsored tax-deferred retirement plans that were affected by 2001 legislation, all of which have increased contribution limits. The most common is the 401(k) having a contribution limit of \$19,000 for 2019 (2018 was \$18,500). Many of the plans (401(k), 403b, 457) also have "catch-up" contributions for employees age 50 or older, remaining at \$6,000. If under Section 415(c), the limit increased from \$55,000 to \$56,000. SIMPLE 408(p) remains at \$12,500. Income limitations apply to all plans.

Annual gift exclusion

The annual gift exclusion for 2018 and 2019 is **\$15,000** (up from \$14,000 in 2017). In addition, the individual lifetime exemption of \$11.2 million for 2018 is adjusted annually for inflation thru 2025, bringing 2019's exemption to \$11,400,000.

Standard deduction vs. itemized deductions (no longer dependency exemptions)

The 2018 amounts are \$12,000 for single or married filing separately, \$18,000 for heads of household and \$24,000 for married filing jointly. If itemized deductions are more, then deduct the higher amount. However, **unreimbursed business expenses are no longer deductible.**

Please keep in mind that we've described only highlights and some of the changes in the tax rules. There are many more questions and opportunities for proper tax planning. Please give us a call on how you may be affected by these important tax issues.