THE CURCHIN GROUP

Newsletter

JAN/FEB 2018

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Tax Cuts and Jobs Act of 2017: What You Need to Know

By Edward Rigby, CPA

Most of the new tax law went into effect January 1, 2018, impacting business owners and individuals for the 2018 tax year. This article focuses on educating our clients and helping them understand how the changes will affect them. Here are the key provisions:

Major Corporate Tax Reduction

Most notable is the reduction in the corporate tax rate. Under prior law, the corporate tax rate was on a graduated schedule with the top rate set at 35%. The TCJA drops the corporate tax rate down to 21% across the board.

Individual Tax Rate Reduction

The new tax law retains seven progressive tax brackets with a reduction of the top tax bracket. The top individual tax rate has been lowered from 39.6% to 37%. For a married couple filing a joint return, the 37% tax bracket begins at taxable income over $600,000 ($500,000 for a single taxpayer). The new law generally retains the tax rates applicable to long term capital gains and qualified dividends. Under the new law, a married taxpayer filing jointly shall have a standard deduction of $24,000 ($12,000 for single taxpayers).

Pass Through Income Deduction

The new law allows individual taxpayers with pass through income from sole proprietorships, partnerships (including LLCs) and S corporations to claim a 20% deduction from taxable income. Under the general rule, the income must be from a domestic, non-service business. The new law allows taxpayers below certain taxable income thresholds ($315,000 for a married joint filer and $157,500 for single filers) to claim the deduction regardless of whether the pass through income is associated with a service business or the W-2 wage and capital limitation requirements. This is a complex tax law change which should be discussed in detail with a tax advisor.

Individual Tax Deductions

The new law eliminates many longstanding deductions for individual taxpayers. First, personal exemption deductions have been repealed. There is a $10,000 limit on deductions for state and local taxes not paid or incurred in a trade or business. There is a new limit on mortgage interest for acquisition indebtedness (the mortgage amount has been lowered from $1 million to $750,000 subject to certain "grandfather rules") and home equity loan interest has been repealed.

Other Key Changes

The new law repeals the alternative minimum tax (AMT) for corporations but retains the tax for individual taxpayers with enhanced exemption amounts (and exemption phaseout amounts). Also, federal estate, gift and generation skipping tax exemptions have been doubled from prior law amounts. For business owners, there are enhanced deductions available for capital investments in eligible business property.

Additional Business Highlights

There are many more pieces of the TCJA to be aware of. For deeper insight on the TCJA as it relates to your specific business and/or individual taxes, contact The Curchin Group at 732-747-0500.

Like and Follow our Facebook and LinkedIn pages as we'll continue to share helpful tips and insights.

What Does Your Vacation Rental Mean for Your Taxes?

Owning a vacation home can be rewarding in many ways, including financially. With platforms like Airbnb and VRBO making it easier than ever to reach short-term renters traveling from around the world, owners in desirable destinations are able to bring in rental income with relative ease. What many of them don't realize, however, is that vacation rentals trigger complex federal income stipulations that can pose significant liabilities for owners who are unaware of the rules.

What Is Considered a Dwelling Unit?

IRC Section 280A provides special rules for the tax treatment of certain expenses in connection with rentals of residences and vacation homes. Under the general rule stated in Section 280A(a), in the case of an individual taxpayer who uses a dwelling unit as a residence during the taxable year, deductions are not allowed for expenses other than mortgage interest, real estate taxes and casualty losses. The term, "dwelling unit" includes a house, apartment, condominium, mobile home, boat, or similar property. It does not include any portion of a unit that is used exclusively as a hotel, motel, inn, or similar establishment.

IRC Section 280A(d) states that a taxpayer is treated as using a dwelling unit if he or she uses the unit for personal purposes for a number of days exceeding the greater of: 14 days, or 10 percent of the number of days during the year for which the unit is rented at a fair market rate of rent. Personal use of the dwelling unit includes not only the use for personal purposes by the taxpayer, but also any person who has an ownership interest in the unit, or member of his or her family (i.e., brothers and sisters, spouses, ancestors, or lineal descendent). There is an exception to this rule for a rental at a fair market rental rate, to a family member who uses the dwelling unit as a principal residence.

Rentals with Less Than 15 Days of Rental Use

If the taxpayer's personal use of the dwelling unit exceeds the greater of the 14 days or 10 percent of fair rental days test, and if the dwelling unit is rented for less than 15 days during the taxable year, deductions otherwise allowable (e.g., maintenance, utilities, depreciation) become void, and the income derived from such rental use is not included in the taxpayer's gross income. Mortgage interest (i.e., to the extent the interest is "qualified residence interest") and real estate taxes associated with the personal residence are deductible as itemized deductions. Thus, gross receipts for rental use are non-taxable in the case of less than 15 days of rental use.

Lodging Taxes

A recent article in Accounting Today discussed the lesser-known law that short-term rental owners are required to pay lodging taxes–typically 10 to 15 percent–on the gross rent collected from guests. These taxes are to be collected from guests, which is the part many owners miss. "Short-term" can range from 30 or 90 days to six months, depending on the state.

To illustrate how significant these taxes can be if they are unanticipated, Accounting Today shines light on the average short-term rental revenue being $20,000 to $30,000 per year, which means $2,000 to $5,000 in taxes per year.

"Lodging tax can be easily overlooked because a large number of owners are often unaware of these requirements," the article explains. "Most homeowners or hosts have never heard of or dealt with these taxes before, and the rental activities are to simply generate income."

Much More to Consider

Dwelling, deductions and lodging taxes are perhaps the most notable issues to be aware of when renting out a vacation home, but there are many additional considerations. To learn more about special deduction limitations, rental activity with minimal personal use and other intertwined rules, visit our blog at www.curchin.com. If you have specific questions regarding your vacation property, contact us at 732-747-0500.

Business Valuation for Owner Disputes

By Roy Kvalo, CPA/ABV/CFF/CGMA, CVA

When two or more business owners are embroiled in conflict, a valuation can pave the way to a resolution. Specializing in business valuation and litigation, The Curchin Group has helped resolve this type of situation many times and can offer a bit of insight that might be helpful to you if you ever find yourself in a dispute with a co-owner or partner in your company.

The CPA's Role

In any ownership dispute, the attorney is the quarterback. The CPA's job is first to communicate with both the attorney and the client to set the stage for effective, efficient communication. Only then can we begin to strategize on how we want to go about the valuation (which we'll discuss shortly in a little more detail).

What We Need to Know

The questions you can expect your CPA to ask in the first discussion include:

- In what court will the case be tried?
- What type of entity are we dealing with?
- What ownership agreements are in place?
- What guidance do the ownership agreements provide in relation to dissolution?
- Who is retaining us and who will be responsible for billings?
- What is the approximate timeline from discovery through trial?

Partnerships and LLCs can be especially challenging to value, because instead of taking an entity approach as we would for a corporation, we must analyze each individual partners ownership under an aggregate theory of business ownership. In the analysis, each partner is viewed as a separate business unit, and each partner's business activities are separately accounted for through use of capital accounts, in order to arrive at each partner's relative share of the whole.

Establishing who we are working for is particularly critical up front, especially considering the owners are in general disagreement. Occasionally, it makes sense for the attorney to retain us, but often, we utilize an engagement letter that appropriately assigns responsibility to the client for all CPA billings.

Precedent

In a New Jersey shareholder dispute, we must consider two cases in particular:

- *Balsamides v. Protameen Chemicals, Inc.* , 160 N.J. 352 (1999)
- *Lawson Mardon Wheaton, Inc. v. Smith* , 160 N.J. 383 (1999)

Without going into the weeds, we will say that both of these provide guidance on whether or not it would be appropriate to apply marketability and minority discounts on value, in other words whether the valuation should be calculated under the fair value (FV) or fair market value (FMV) standard. In certain cases we are asked to provide both a FV and FMV valuation.

Valuation Process

The valuation requires us to gather in-depth analysis of:

- Business operations
- Financial data
- Industry and market data
- Microeconomics
- Macroeconomics
- Input from management
- Input from other key personnel

You may be familiar with the three general types of valuation approaches: the income approach, asset approach and market approach. The income approach focuses primarily on cash flow, while the asset approach considers the net asset value (assets minus liabilities). The market approach can offer ballpark figures based on what similar companies are selling for. However, for many small businesses, the market approach is best taken with a grain of salt, as the ranges can be extremely wide and misleading.

In conjunction with the valuation, we determine whether discounts for lack of marketability and/or lack of control would be applicable, to reflect fair value and/or fair market value. Remember, the primary difference between the two is generally in the discounts.

This is only a short-form outline of a business valuation in an owner dispute. To learn more, contact The Curchin Group at 732-747-0500.

Featured Employee:

NICOLE ULLMEYER

Nicole Ullmeyer joined The Curchin Group in 2014 and is currently an audit supervisor. She ensures the audit team is delivering quality work and superior service across all of our audit offerings, including reviews, compilations, internal control reporting, regulatory compliance assistance, and special financial reports.

Nicole became a Certified Public Accountant in 2015. She previously worked as a marketing research associate in the finance industry. Nicole holds a B.S. from The College of New Jersey and an M.B.A. from Monmouth University, both in Accounting. At Curchin, she enjoys the close-knit culture and long-term client relationships of a mid-sized firm. In her spare time, Nicole enjoys reading and traveling.

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200 Schulz Drive, Suite 400
Red Bank, NJ 07701

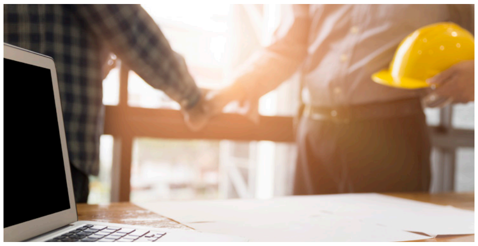
Firm News

Curchin in Construction

Curchin's Bill McNamara and Kevin Donovan attended the UTCA General Membership Meeting on Jan. 11, where New Jersey Senate President Steve Sweeney gave an update from Trenton.

On Feb. 8, Ed Rigby joined the Panel of Experts at the UTCA Federal Tax Reform Roundtable and spoke to members about the effects of the new tax law.

McNamara and Donovan also attended the Shore Builders Association General Membership Meeting on Jan. 31, which focused on the 2018 economic forecast.



HECKERLING INSTITUTE ON ESTATE PLANNING
University of Miami School of Law

The Nation's Largest Gathering of Estate Planning Professionals

Lynn Conover attended the 52nd Annual Heckerling Institute on Estate Planning on Jan. 22-26. The conference provided comprehensive coverage of the impact of the Tax Cuts and Jobs Act of 2017.

Insight at Curchin

The Curchin Group hosted two seminars, on Jan. 30 and Feb. 1, for clients to learn more about the Tax Cuts and Jobs Act of 2017. Peter Pfister, Lynn Conover and Ed Rigby presented the updated tax information.

Mortgage Risk Impacts the Balance Sheet

Bob Fouratt spoke at a NJ Credit Union League event on Feb. 6, titled "All About Mortgages: Stepping Up Your Game." He shared information about how an auditor looks at risk and how different levels of risk impact the balance sheet.

Congrats Are in Order

We would like to congratulate two of our staff members who are in the final stages of earning their CPA license. AlexaJoan Macaluso and Luke DiMatteo successfully passed all four parts of the CPA exam and have completed their 150 credit hours.