

THE KT ADDITION

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Friends for Life.

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NEW 20% DEDUCTION FOR BUSINESSES (EXCEPT C CORP)

PAUL THORSTENSON, CPA, ABV, CVA, PARTNER

There is a significant new tax deduction taking effect in 2018 under the new tax law, the Tax Cuts and Jobs Act (the Act). It should provide a substantial tax benefit to individuals with “qualified business income” from a partnership, S corporation, LLC, or sole proprietorship. This income is sometimes referred to as “pass-through” income.

The deduction is 20% of your “qualified business income (QBI)” from a partnership, S corporation, LLC or sole proprietorship, defined as the net amount of items of income, gain, deduction, and loss with respect to your trade or business. The business must be conducted within the U.S. to qualify, and specified investment-related items are not included, e.g., capital gains or losses, dividends, and interest income (unless the interest is properly allocable to the business). The trade or business of being an employee does not qualify. Also, QBI does not include reasonable compensation received from an S corporation, or a guaranteed payment received from a partnership for services provided to a partnership’s business.

The deduction is taken “below the line,” i.e., it reduces your taxable income but not your adjusted gross income. But it is available regardless of whether you itemize deductions or take the



Paul Thorstenson,
CPA, ABV, CVA, Partner

standard deduction. In general, the deduction cannot exceed 20% of the excess of your taxable income over net capital gain. If QBI is less than zero it is treated as a loss from a qualified business in the following year.

Rules are in place (discussed below) to deter high-income taxpayers from attempting to convert wages or other compensation for personal services into income eligible for the deduction.

For taxpayers with taxable income above \$157,500 (\$315,000 for joint filers), an exclusion from QBI of income from “specified service” trades or businesses is phased in. These are trades or businesses involving the performance of services in the fields of health, law, consulting, athletics, financial or

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(New 20% Deduction for Businesses (except C Corp) continued from page 1)

brokerage services, or where the principal asset is the reputation or skill of one or more employees or owners. Here's how the phase-in works: If your taxable income is at least \$50,000 above the threshold, i.e., \$207,500 (\$157,500 + \$50,000), all of the net income from the specified service trade or business is excluded from QBI. (Joint filers would use an amount of \$100,000 above the \$315,000 threshold, viz., \$415,000.) If your taxable income is between \$157,500 and \$207,500, you would exclude only that percentage of income derived from a fraction the numerator of which is the excess of taxable income over \$157,500 and the denominator of which is \$50,000. So, for example, if taxable income is \$167,500 (\$10,000 above \$157,500), only 20% of the specified service income would be excluded from QBI (\$10,000/\$50,000). (For joint filers, the same operation would

apply using the \$315,000 threshold, and a \$100,000 phase-out range.)

Additionally, for taxpayers with taxable income more than the above thresholds, a limitation on the amount of the deduction is phased in based either on wages paid or wages paid plus a capital element. Here's how it works: If your taxable income is at least \$50,000 above the threshold, i.e., \$207,500 (\$157,500 + \$50,000), your deduction for QBI cannot exceed the greater of (1) 50% of your allocable share of the W-2 wages paid with respect to the qualified trade or business, or (2) the sum of 25% of such wages plus 2.5% of the unadjusted basis immediately after acquisition of tangible depreciable property used in the business (including real estate). So if your QBI were \$100,000, leading to a deduction of \$20,000 (20% of \$100,000), but the greater of (1) or (2) above

were only \$16,000, your deduction would be limited to \$16,000, i.e., it would be reduced by \$4,000. And if your taxable income were between \$157,500 and \$207,500, you would only incur a percentage of the \$4,000 reduction, with the percentage worked out via the fraction discussed in the preceding paragraph. (For joint filers, the same operations would apply using the \$315,000 threshold, and a \$100,000 phase-out range.)

Obviously, the complexities surrounding this substantial new deduction can be formidable, especially if your taxable income exceeds the thresholds discussed above. If you wish to work through the mechanics of the deduction with us, with particular attention to the impact it can have on your specific situation, please give us a call.

BUSINESS TAX REFORM

JOEI TIEMAN, CPA, SENIOR ASSOCIATE

FINALLY....a decision has been made! The House and Senate made a combined effort to get one of the biggest tax reforms to the President before the holidays in over 30 years! The tax reform started months ago and has gone back and forth deciding on what goes, what stays, and what changes.

Do you understand how the tax reform affects your business?

The good news is nearly all of this law does not take effect until 2018 or beyond which means we have time to plan! It's very important you visit with a tax professional in order to understand the changes, understand how they apply to your business, and make sure you are taking full advantage of any benefits.

Let's take a look at the major business changes in the tax

(Business Tax Reform continued on page 3)



*Joie Tieman,
CPA, Senior Associate*

(Business Tax Reform continued from page 2)

reform bill effective after 12/31/17:

- **Immediate expensing and depreciation.** Changes related to Section 179, improvements, qualified property, and short-lived assets. (See Carrie Christensen's article on page 4).
- **Pass-through business income,** which is income from sole proprietorships, S Corporations, partnerships, and LLCs passed to the individual owners,
 - A deduction equal to 20% of business income is limited to 50% of W2 wages, among other limitations. The wage limitations don't apply to certain small businesses.
 - Most entities in the business of providing "professional services" are excluded from the deduction. However, there are exceptions to the rule as well as phase-out limitations to consider.
 - This is by far the most complicated legislation affecting our South Dakota clients. (See Paul Thorstenson's article on page 1)

- **Corporate tax rate** is now a flat 21%, which is a considerable drop from the 35% rate under the previous law.

- **Net Operating Loss (NOL)** two year carryback rule is repealed except for certain farmers and ranchers.
 - The NOL is limited to 80% of taxable income. Carryovers take this limitation into account and carried forward indefinitely.

- **Alternative Minimum Tax (AMT)** is repealed for corporations

- **Domestic Production Activities Deduction (DPAD)** is repealed for non-corporate taxpayers. C Corporations DPAD will be repealed after 12/31/2018.

- **Research and experimentation expenses (R&E)** paid or incurred after 12/31/2021 must be capitalized and amortized over a 5-year period.

- **Interest deductions** have been

limited except for businesses with average annual gross receipts of less than \$25 million. Taxpayers do have an option to elect out of being limited on interest but that will require extended depreciation lives.

- **1031 Exchanges** are still in effect for real property, but no longer tangible personal property disposed of or purchased after 12/31/17.

- **Meals and Entertainment:** Entertainment expenses paid after 12/31/17, will need to be classified separately and are disallowed. Business meals as well as meals provided on employer premises are both limited to being 50% deductible. After 12/31/2025, expenses for meals will also be disallowed.

There are several other items listed in the tax bill – too many to list. That's why it's important you contact us as soon as possible to start planning for 2018!

DID YOU KNOW? EFFECTIVE JANUARY 1, 2018

- Minimum wage will increase to \$8.85 per hour effective January 1, 2018.
- Tipped employee wage will increase to \$4.425 per hour effective January 1, 2018.
- It's important to stay in compliance with all labor law posting requirements. With the changes to the minimum wage and tipped employee wage all employers will need to update their postings. For details or to get free postings go to the South Dakota Department of Labor and Regulations website and click on Posting Requirements.

TAX REFORM – EXPENSING AND DEPRECIATION

CARRIE CHRISTENSEN, CPA, SENIOR ASSOCIATE

The Tax Cuts and Jobs Act includes multiple provisions increasing depreciation limits which will apply to tax years beginning with the 2018 tax year or sooner for certain provisions. The following provisions are included in the bill:

- Immediate expensing (also referred to as bonus depreciation)
- Enhanced Section 179 depreciation
- Shorter recovery periods for farm/ranch equipment
- Increased luxury auto depreciation limits
- Elimination of separate categories for qualified real estate improvements

Immediate Expensing – 100% immediate expensing (bonus depreciation) is available for certain business expenses including machinery and equipment and qualified improvement property acquired and placed in service after September 27, 2017. The provision applies to both new and used property. As such, this provision heightens the importance of cost segregation studies. Costs identified as tangible personal property and land improvements are eligible for immediate expensing whether the property is new construction or acquired property. The 100% expensing is available through 2022, after which it begins phasing out by 20% per

year. For example, immediate expensing is limited to 80% in 2023, 60% in 2024 and so forth until it is fully phased out in 2027.

Enhanced Section 179

Depreciation – The popular Section 179 deduction has been increased from \$500,000 to \$1 million with the phase-out limitation increasing from \$2 million to \$2.5 million for tax years beginning after December 31, 2017. These amounts are indexed for inflation for years beginning after 2018. The Section 179 deduction applies to tangible personal property such as machinery and equipment which is purchased for use in a trade or business. The new law increases the scope of qualified property to include “qualified real property” which includes the following improvements to nonresidential real property after the date the property was first placed in service: roofs; heating, ventilation, and air-conditioning property; fire protection and alarm systems; and security systems. Additionally, the provision is expanded to include certain depreciable personal property used to furnish lodging.

Shorter Recovery Periods for Farm/Ranch Equipment – For new farm/ranch machinery or equipment (other than any grain bin, cotton ginning asset, fence, or other land improvements) placed in service after December 31,



Carrie Christensen,
CPA, Senior Associate

2017, the cost recovery period is shortened from seven to five years. Additionally, 3-year, 5-year, 7-year, and 10-year property used in an agricultural business may now be depreciated using the 200% declining balance rather than the 150% declining balance method which was required under the old law. This allows for larger depreciation deductions in earlier years.

Increased Luxury Auto Depreciation Limits

– For passenger autos placed into service after December 31, 2017, the luxury auto depreciation limit has been increased from \$3,160 to \$10,000 for the first year the vehicle is placed in service, from \$5,100 to \$16,000 for the second year, from \$3,050 to \$9,600 for the third year, and from \$1,875 to \$5,760 for the fourth and later years. These amounts are indexed for inflation for years after 2018.

(Tax Reform – Expensing and Depreciation continued on page 5)



(Tax Reform – Expensing and Depreciation continued from page 4)

Elimination of Separate Categories for Qualified Real Estate Improvements – The new law eliminates the separate definitions for qualified leasehold improvement property, qualified restaurant property, and qualified retail improvement property and creates a general qualified improvement property category. As such, qualified improvement

property placed in service after December 31, 2017 is generally depreciable over 15 years using the straight-line method. This change will negatively impact restaurants as newly constructed restaurant building structures that are not qualified improvement property will now be subject to a 39-year depreciation period rather than a 15-year period. Under

the new law, only improvements to the interior of restaurant buildings, which must also meet the qualified improvement property requirements, may be depreciated over 15 years. Under the new law, qualified improvement property is eligible for Section 179 expensing and eligible for bonus depreciation due to the 15 year depreciation period assigned.

2017 – TAX CUTS AND JOBS ACT WHAT INDIVIDUAL TAXPAYERS NEED TO KNOW

KEVIN SICKELS, CPA, PARTNER

After months and months of discussion, the tax reform legislation has passed. One interesting tidbit is that the chief architect of the bill, Congressman Kevin Brady, is a 1973 graduate of Rapid City Central High School. Now we can help guide how this bill will impact your income taxes in 2018 and beyond.

Because we don't have a state income tax, substantially all South Dakota taxpayers

will pay less federal income tax under the new law.

Income Tax Brackets: The seven tax bracket format we currently have will remain. However, the rates and the size of the brackets have changed. Interestingly, these new brackets eliminate the marriage penalty through the 32% bracket, as the joint bracket is exactly double the single.



Kevin Sickels, CPA, Partner

How Will Your Tax Bracket Change In 2018?

Old Vs. New Tax Brackets For Single Filers

Old brackets		New brackets	
Taxable income	Tax rate	Taxable income	Tax rate
\$0-\$9,525	10%	\$0-\$9,525	10%
\$9,526-\$38,700	15%	\$9,526-\$38,700	12%
\$38,701-\$93,700	25%	\$38,701-\$82,500	22%
\$93,701-\$195,450	28%	\$82,501-\$157,500	24%
\$195,451-\$424,950	33%	\$157,501-\$200,000	32%
\$424,951-\$426,700	35%	\$200,001-\$500,000	35%
\$426,701+	39.6%	\$500,001+	37%

Sources: docs.house.gov, taxfoundation.org

Old Vs. New Tax Brackets For Marrieds Filing Jointly

Old brackets		New brackets	
Taxable income	Tax rate	Taxable income	Tax rate
\$0-\$19,050	10%	\$0-\$19,050	10%
\$19,051-\$77,400	15%	\$19,051-\$77,400	12%
\$77,401-\$156,150	25%	\$77,401-\$165,000	22%
\$156,151-\$237,950	28%	\$165,001-\$315,000	24%
\$237,951-\$424,950	33%	\$315,001-\$400,000	32%
\$424,951-\$480,050	35%	\$400,001-\$600,000	35%
\$480,051+	39.6%	\$600,001+	37%

Sources: docs.house.gov, taxfoundation.org

(2017 – Tax Cuts and Jobs Act – What Individual taxpayers need to Know continued on page 6)

(2017 – Tax Cuts and Jobs Act – What Individual taxpayers need to Know continued from page 5)

Standard Deductions and Personal Exemptions: The standard deduction will increase to \$12,000 for individuals, \$18,000 for Head of Household, and \$24,000 for married filing joint. This sounds like a great increase, until you factor in that they removed the personal exemptions. If you were a married couple with no kids and do not itemize, this is a benefit to you. However, if you do itemize or have several dependents, this may create more tax due for you. The good news, is that the expanded Child Tax Credit will likely offset any additional tax.

Kiddie Tax: If you have kids that have unearned income greater than \$2,100, I have good news and bad news. The good news is you no longer have to wait for your return to be done to calculate their return. The bad news is their tax is now calculated using the Trust and Estate tax rates which have very small brackets which reach the top tax bracket very quickly.

Child Tax Credit: For dependent children under 17, the credit will double to \$2,000 per child with \$1,400 being refundable, if you otherwise don't owe tax.

Mortgage Interest Deduction: Under the old rules, you could deduct interest on loans up to \$1,000,000 for home acquisition debt and another \$100,000 on home equity lines. Under the new law, the \$100,000 home equity line interest deduction is eliminated

and the cap on new loans goes down to \$750,000. However, if you have an existing loan between the \$750,000 and \$1,000,000 you are still okay to deduct the interest. Under the sunset provisions of this bill, beginning in 2026, the old law is brought back and you will be able to deduct the interest for both the \$1,000,000 mortgage and the home equity debt. Interest on a second home is still deductible under the new law, as long as the total debt is under the limits.

State and Local Taxes and Property Taxes: There will now be an annual cap of \$10,000 for the Schedule A deduction relating to the total of state and local income, property or sales taxes. With this cap and the higher standard deduction, it will be less likely for taxpayers to be able to itemize their deductions.

Charitable Contributions: The current annual limit on contributions is 50% of your Adjusted Gross Income. Under the new law, this is increased to 60%. Any amounts above this threshold is still eligible to be carried forward for up to five years.

Miscellaneous Itemized Deductions: You can no longer deduct unreimbursed employee expenses, home office expense (if you are not in business for yourself), certain attorney fees, and investment advisor fees.

Medical Expense Deductions: The deductible threshold is going back to 7.5% of AGI for all taxpayers. And this law is retroactive to the beginning of 2017.

Alimony Deduction: This deduction is repealed for divorces finalized in 2019 and after. Likewise, the recipient spouse will not have to report the Alimony as income.

Moving Expense Deduction: This deduction is eliminated for most taxpayers.

ACA Individual Mandate: Beginning in 2019, you will no longer have to tell the IRS whether you have health insurance and there will be no penalty for not having it. However, for 2018, the penalty will still apply.

AMT (Alternative Minimum Tax): The law Increases the exemptions to \$70,300 individuals and \$109,400 for married filing joint. But more important, the exemptions will not phase out until very high income limits. This should dramatically reduce the number of taxpayers impacted by the AMT.

Expiration: Due to the Senate's budgeting rules, a majority of the individual changes listed above will expire on December 31, 2025 and will revert back to the 2017 law without additional legislation.

2017 TAX CUTS AND JOBS ACT CONCERNING ESTATE TAX EXEMPTION

MICHELLE MINNERATH, CPA, PARTNER

President Donald Trump's vow to repeal the federal estate tax did not happen with the 2017 Tax Cuts and Jobs Act that was signed into law the week before Christmas. Instead the federal estate tax exemption has doubled, which benefits high-net worth families. Before we go into the specifics of the law, let's first define the Federal Estate Tax. This is a tax on property (cash, real estate, stock, or other assets) at death transferred from a deceased person to an heir, other than a surviving spouse. Currently, only individual estates with total assets above the Exclusion Amount (currently \$5.49 million) are subject to the estate tax. The current estate tax rate is 40%.

The new Act has doubled the basic exclusion amount from \$5.49 million per individual to \$11.2 million for estates of decedents dying (and gifts made) after 2017 and before 2026. The \$11.2 million exemption is indexed for inflation. At 01/01/2026, the exclusion amount is set to sunset back to the \$5.49 million per individual, subject to inflation. The tax rate remains at a flat 40% under the new law.

If the first spouse to die uses his or her exemption by passing wealth to heirs, or if portability is elected, the surviving spouse could have a \$22.4 million estate exemption at the time of his or

her death, as long as death occurs prior to 2026. The portability election is an election that allows a surviving spouse to use a deceased spouse's unused estate tax exclusion amount for estate tax at his or her death. Even fewer estates will be subject to the estate tax with the higher exemption and the portability election.

For wealthy taxpayers, one option for anyone who does not plan on dying before 2026 (isn't that everyone?), is to make gifts anytime between 2018 and 2025 to use up their exclusion. This is a way to decrease their estate and be able to utilize the increased exemption before it reverts back to \$5.49 million. Because this law "sunset" on January 1, 2026, wealthy people will need careful planning, now and when the sunset date nears. Also, since this was not a bi-partisan tax bill, it is always possible that a new election might bring new laws even before then.

On the other hand, it is often an "income tax" mistake to make large lifetime gifts, due to the loss of step-up in basis. Step-up in basis occurs when a taxpayer passes away as almost every asset owned receives a new income tax basis, which is based on the fair market value at the date of death. This can be very beneficial for the heirs of farmers/ranchers or other taxpayers who have property with a



*Michelle Minnerath,
CPA, Partner*

very low cost basis, such as land. For example, the stepped-up basis reduces an heir's capital gain when the asset is sold. Also, stepped-up business assets, such as breeding stock, can be re-depreciated over their useful lives, possibly saving income tax dollars for the recipient.

Please contact our office if you have any questions on estate tax.



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TAX REFORM BILL FOR SECTION 1031 EXCHANGES

KATIE FINNEGAN-LARSON, EA, MANAGER

The recently signed reform bill has changed IRS Code Section 1031 dealing with like-kind exchanges. Section 1031 is used by taxpayers to defer gain on the sale of property. Beginning in 2018, the bill limits the use of Section 1031 to only real property, land and buildings. With this bill taxpayers are no longer able to use the like-kind exchange for personal property such as vehicles, machinery and equipment. Those that proposed the elimination of like-kind exchanges for personal property stated that it is no longer needed because of the increased expensing provisions through Section 179 and bonus depreciation. For the next five years, the bill allows 100% bonus depreciation on eligible personal property whether new or previously owned (used)... In addition, for the next five years, Section 179 will allow full expensing of up to \$1,000,000 of eligible personal property.

The rules of a deferred exchange have not changed in that the exchange of real property has to take place with: 1) identifying replacement property(ies) within 45 days from the conclusion of

the sale, and 2) completion of the transaction within 180 day from the conclusion of the sale. As has been the case all along, the monies must remain out of your control and be used to purchase the new property. Any relief of debt would be considered cash received unless on the replacement property there is new debt same as the old debt or in excess.

A couple examples would be: A rancher trades in old equipment (fully depreciated) for new equipment. The old equipment is valued at \$25,000 in the trade and the new equipment is worth \$60,000.

The method used in 2017 would be to reduce the new equipment's basis to \$35,000 (\$60,000-25,000) for the cash paid.

With the like-kind exchange option no longer available, the rancher will recognize \$25,000 of ordinary income not subject to self-employment tax and would have the new equipment basis be \$60,000, the full amount of which will be eligible for expensing either through bonus depreciation or Section 179. The



*Katie Finnegan-Larson,
EA, Manager*

expense of the new equipment would reduce income subject to self-employment taxes.

Timing of purchases would be important to make the expenses work out. If the rancher sells the old equipment in year 1, but does not purchase the new equipment until year 2, the rancher would recognize the income in year 1 and the depreciation expense would be recognized in year 2.

Please contact our team at Ketel Thorstenson for further inquiries on the Section 1031 Exchange rules.

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HEADS UP! MAJOR CHANGES FOR PARTNERSHIPS EFFECTIVE JANUARY 2018

PERRY KUDRNA, EA, MANAGER

In 2018, new income tax rules will affect all entities taxed as partnerships which are being audited by the IRS. General and limited partnerships as well as LLCs or that are taxed as partnerships, will be subject to the new rules.

Rule for 2017 and prior:

Upon audit, if the IRS concluded that a partnership under reported its income, the IRS could recover additional taxes from everyone who was a partner in the tax year for which the income was under-reported.

New 2018 Rules. Upon audit the IRS can assess a tax on the partnership itself, instead of chasing the individual partners. The partnership will pay tax at the highest tax rate for the wealthiest taxpayers, regardless of an individual partner's tax bracket. If one or more partners are not in the highest tax bracket, the new rules would increase the overall tax being paid.

The partners who bear the additional tax burden are the partners for the year the IRS assesses the tax, not the partners for the year when the additional taxable income should have been reported.

A partnership must appoint a "partnership representative". If it fails to do so, the IRS may designate someone to serve as the partnership

representative. The IRS can only communicate with the partnership representative. The partnership representative may agree to tax adjustments that are binding on the partnership and all the partners.

Election Out of New Rules.

Partnerships with 100 or fewer eligible partners may annually elect to require each partner to pay his/her share of the tax (use pre-2018 rule). Certain types of living trusts, LLC's and other organizations that are frequent partners, disqualify a small partnership from electing to require the partners to pay the tax.

Late filing penalties for 1065 Partnership now \$200 per partner, per month.

The new law does away with the "small partnership" exception to late filing penalties for 10 or fewer partners (Rev. Proc 84-35). The only potential relief will be the first time penalty abatement waiver or reasonable cause.

Take Action:

1. Discuss with your KTLLP tax preparer the new rules regarding elections you need to include in your partnership tax filings for 2018 and possible future tax years.

2. If you have any ineligible partners, you may want to make changes so



*Perry Kudrna,
EA, Manager*

you can elect the "100 or fewer partner" exception.

3. Talk with your lawyer to make changes to your governing documents.

4. Select your partnership representative, limit his/her authority, and provide him/her appropriate liability protections.



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SMALL BUSINESS PENSION PLANS A RETIREMENT/TAX SAVINGS TOOL EASILY FORGOTTEN

JESS WEAVER, CPA, SENIOR MANAGER

Pension plans, also known as defined benefit plans, have been around for a long time and quite honestly don't make sense for many businesses. For a small business with excellent cash flow, pension plans may be a perfect fit to shelter away big time tax savings. It can be easily overlooked when discussing retirement options such as SEPs, 401Ks, Simple IRAs, etc.; however, pension plans offer more opportunity than any other retirement vehicle for business owners and entrepreneurs to keep a larger share of their wealth out of the government's pocket.

Any small business owner generating more than \$250,000 a year in income should at least review if a pension plan makes the most sense, even if they already have an existing 401K or retirement account. An ideal candidate for pensions would be

- A family run business with 1-5 employees
- A single owner who serves as the sole employee for the business
- Employers with significantly all part time/seasonal workers

Like 401K plans and IRAs, pension plan contributions are tax deferred for small business owners, but unlike 401Ks and IRAs, pension plans have a greater

level of flexibility and higher contribution limits. By utilizing a pension plan, it's possible for small business owners to stow away up to \$215,000 in a single year as compared to only \$18,000-\$24,000 with a 401K. It's not unusual to see 2-3 employee sized businesses contribute \$300,000 to \$400,000 towards their pension in a single year.

Some calculations are required and performed annually by a plan actuary to calculate funding options for defined benefit plans. These calculation costs can result in higher overall fees compared to other retirement vehicles however most clients that have a pension plan find the pension cost becomes a small burden compared to the reward of asset protection, greater flexibility, and maximized tax savings. Also, for those who need a high level of liquidity as working capital to keep their businesses running, pension plans may not always be the best retirement vehicle.

If you start a pension plan, you can take a credit of up to \$500 a year for each of the first three years of the plan. The credit is for 50% of certain startup costs you incur in each of those years. Those costs include the expenses you incur in establishing and administering the plan, as well as the cost of any retirement



Jess Weaver,
CPA, Senior Manager

planning education programs you sponsor for your employees.

If you had a pension plan in the last couple of years, you would not qualify for the credit unless waiting three years from the time the plan was terminated before starting a new plan. As an example, if you had a plan that was terminated in 2013, you would have to wait until 2017 to start a new plan and qualify for the credit.

If a pension plan does not seem appropriate for your business, there are several types of plans you can establish for your employees and still qualify for the credit. For example, you could start a SEP (simplified employee pension), profit sharing, or an annuity plan, among other choices.

Small business owners considering a pension plan as a

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viable option should seek out a qualified advisor that works with pension plans and can share in

detail further pros and cons of a pension plan. As always, we are more than willing to have such

conversations with you to see if a pension plan would be a good fit.

SUCCESSION PLANNING: ENSURING YOUR BUSINESS IS AROUND FOR YEARS TO COME

AMANDA DOKTER, PHR, SHRM-CP, HUMAN RESOURCES MANAGER

As the working population ages, many of us will be faced with the retirement of our management leveled staff. Unfortunately, most businesses aren't prepared to handle the void these retirements will leave. To ensure a smooth and successful transition, a well thought out succession plan is necessary.

Succession planning is much more than just having a pool of applicants to choose from. It's a process that ensures the business has the breadth and depth of talent necessary to fulfill and continue its mission. Succession planning allows a business to not only fill critical roles, but also to allow for knowledge transfer and continuity of culture.

When developing a plan remember the following.

- **It's not only about the CEO.** What would you do if your Controller left or your Vice President of Operations retired? Would that department continue to run at full capacity? Think beyond the top and look at the critical roles that are necessary to make your business run smoothly and provide the best service to your community.

- **Job descriptions are essential.** Make sure you have well-developed job descriptions for each of the critical roles. A well-developed description will contain the position's key skills, responsibilities, competencies, and requirements. Having a well written description will allow you to better find the ideal candidate. The job description should be reviewed regularly to make sure it accurately represents what the role requires.

- **It only works if the right people are involved.** Don't leave the planning up to one person or department. Develop a committee that includes the key players from your business; CEO, Human Resources, Finance, Board of Directors, etc.

- **Have a plan, set dates, set expectations, and determine who will do what.** Once you've set up your committee and put succession planning on the forefront, next you'll want to have a plan in place. Make sure to divvy up the responsibilities, set deadlines if necessary, and determine who has the authority to make decisions.



Amanda Dokter, PHR, SHRM-CP
Human Resources Manager

- **Assess your current staff and find your gaps.** Are there staff members that show potential, who are your top performers? Find these individuals and begin to groom them to take on these critical roles. Continue to assess your staff to see if anyone new should be added to this list. If you find gaps, begin a recruitment process in order to fill the gap. Remember, it may be easier to find someone who needs a little grooming than an experienced person to fill a critical role.

- **Mentoring and training programs can prepare staff.** If you are going to "hire from within" then make sure to develop your staff so they can best take on the new role. Have in place

(Succession Planning: Ensuring Your Business is Around for Years to Come continued on page 12)

(Succession Planning: Ensuring Your Business is Around for Years to Come continued from page 11)

a fully developed mentorship and training program; both can groom high performers for critical roles within your business. They are also great retention tools.

• **Focus on retaining top performers.** Retention is important for any employee, but it is extremely important for top performers who are part of your succession plan. Make sure they are

engaged and know they are a valued member of the business. Perform “stay interviews.” Ask them what makes them stay with the business, what causes them frustration at work, what their career aspirations are, and what motivates them. Then use this information to develop a plan to retain that staff member.

• **Budget for additional costs.** Budget for the financial

impact you’ll see from implementing a succession plan. You may see an increase cost in recruitment, training, retention, and compensation.

Having a succession plan will make sure your business is around for years to come, giving you the ability to continue to serve your community and its needs.

WHAT’S NEW AND UPDATED IN QUICKBOOKS 2018?

KIA SMITH, CPA, SENIOR ASSOCIATE, QUICKBOOKS PROADVISOR

Multi-monitor Mode

Only in QuickBooks 2018 can you view multiple QuickBooks windows - on multiple monitors at a time - to make your workplace more productive. To turn this feature on: from within a menu bar select View, Switch to Multi-monitor Mode or use the keyboard shortcut Ctrl+Alt+M. In the window displayed, click the move window icon in the upper right-hand corner, and the window will be moved to one of your connected monitors.

Payroll Liabilities Badge/Warning

If you have an enhanced payroll subscription, the home page in the employee’s section will display a red exclamation point on the payroll liabilities icon, indicating that a scheduled payroll liability is due. This icon has been located in the employee center under the payroll liabilities tab and is now also on the home page. The alert is there to help prevent missed payments for scheduled payroll liabilities. The warning badge

will show within seven days of the due date if you have set up scheduled payroll liabilities.

Search in Chart of Accounts

There is now a search box in the QuickBooks 2018 chart of accounts list. This option allows you to quickly find any account instead of scrolling through a long list of accounts. Within this search box, you can search by account number or account name using only partial words of an account name.

Accrual/Cash Basis Toggle on Reports

In a report displayed in QuickBooks, there is now an option to switch between accrual or cash basis right on the front of the report - instead of customizing the report in the tab display.

If you have any questions or need assistance with QuickBooks, please contact one of the QuickBooks ProAdvisors at Ketel Thorstenson LLP at 605-342-5630.



*Kia Smith,
CPA, Senior Associate,
QuickBooks ProAdvisor*



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conversation
online.**

CONCLUSION TO THE STRATEGIC PLANNING SERIES

ERICKA HEISER, MBA, CVA, SENIOR MANAGER

Over the course of the last two years, I have written articles as part of my Strategic Planning Series. I hope you have enjoyed the information I shared in those. But, if you are like me and like a neat little bow tied around a set, I will not disappoint! This article will conclude my series by capturing information shared in the series as a whole.

- Plan ahead if your exit strategy involves selling your business. Having clean, profitable, and strong financial statements for the last five years could raise fewer questions and lend to a smooth transition.

- Explore the factors that help you focus on doing more of the good things that allow your business value to grow in the right direction! A few of these factors are competitive advantage, reputation, non-compete agreements, and risk management.

- Manage risks that negatively impact business value. Focus

on strengthening cash flows, devise a healthy capital structure, diversify, and be consistent with staff and/or location.

- Understand the marketplace within your industry. Keep tabs on competition, identify community/client needs, and adjust pricing structure frequently.

- Measure financial metrics as compared to peers. Analyze gross profit margins, operating expenses, working capital, and capital structure in relation to others in your peer group.

- Leverage goodwill/intangible assets such as reputation, assembled workforce, non-compete agreements, signed contracts, location, and processes. The more difficult it is for a competitor to recreate what you have, the more value your company has.

- Enhance the future value of your company, stay up to date with equipment to increase efficiencies, hire talent, secure long-term



*Ericka Heiser,
MBA, CVA, Senior Manager*

contracts, manage debt, and provide quality products and service.

Overall, it is difficult to get our heads out of the day-to-day tasks long enough to focus on big picture factors. However, without spending time to answer the really tough questions, your business could suffer.

Still can't get enough of strategic planning? Call to schedule an appointment to learn how to incorporate these learnings into your own business as you continue your journey to the top!

PLEASE NOTE

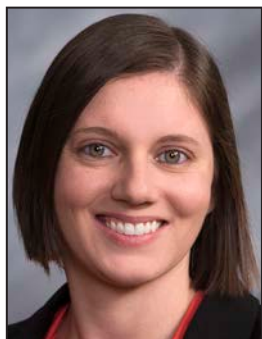
The KTLIP Annual Open House is moving from January to October.

SAVE THE DATE - OCTOBER 25, 2018

KT News

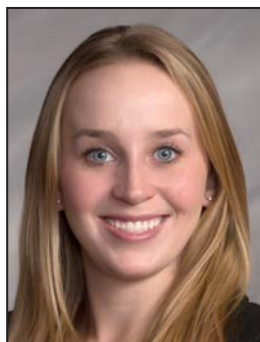
**We can't do what we do without the help of a GREAT TEAM.
Meet some of them.**

— NEW HIRE —



*Kim Richters,
Associate,
Tax Department*

— WELCOME BACK —



*Elizabeth Chapman,
Senior Associate,
Audit Department*

— NEW POSITIONS —



*Mary Hlebechuck,
Associate,
Tax Department*



*Ashlee Becton,
Administrative Assistant,
Administration*

— CPA EXAM PASSED —



*Mary Hlebechuck,
Associate,
Tax Department*

— INTERNS —

*Tax Department
Nicole Steele
Paul Mitchell
Mariah Palmquist*

*Audit Department
Chris Jansen
Bethany Ehresmann*

*Accounting Department
Jennifer Coyle*

KT IN THE COMMUNITY



The KTLLP team stuff backpacks at Feeding South Dakota.



KTLLP had a "sweet" time helping kids build Gingerbread houses at the Saturday Art Adventure at the Dahl.



KTLLP elves got into the holiday spirit by gift wrapping presents at The Club for Boys.



KT News

**We can't do what we do without the help of a GREAT TEAM.
Meet some of them.**

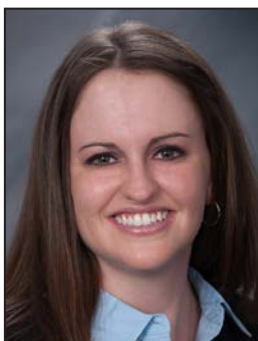
PROMOTIONS



*Jess Weaver,
Senior Manager,
Tax Department*



*Sandra Weaver,
Senior Manager,
Audit Department*



*Shelley Goodrich,
Senior Manager,
Audit Department*



*Greg Miner,
Manager,
Tax Department*



*Brady Larsen,
Manager,
Tax Department*



*Alicia Burghduff,
Manager,
Tax Department*



*Katie Finnegan -
Larson, Manager,
Tax Department*



*Joeli Tieman,
Senior Associate,
Tax Department*



*Kristal Hamm,
Senior Associate,
Tax Department*



*Travis Vogel,
Senior Associate,
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*Matt Christofferson,
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*Amanda Dennis,
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*The partners of
Ketel Thorstenson, LLP*



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