THE KT ADDITION

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What's Inside:

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EIDE BAILLY ALLIANCE CPA

REMINDER TO REVIEW YOUR WITHHOLDING

CARRIE CHRISTENSEN, CPA, MANAGER

Carrie Christensen, CPA, Manager

Were you surprised with such a small refund, or worse yet you unexpectedly had to write a check on April 15th? If the answer to this question is yes, and you have not yet adjusted your federal income tax withholding, the impact may be even greater for the 2019 tax year. This is because the new withholding tables will be in effect for all twelve months, versus about nine months for 2018.

Last summer, we urged our clients to review their federal income tax withholding, shortly after the IRS released the new withholding tables. We are reminding you again now of the importance of evaluating your withholding.

Taxpayers most likely to be negatively affected by the 2018 withholding tables included households with two wage earners, individuals with multiple employers, and taxpayers affected by the new rules on itemizing. This current version of Form W-4, which is used to update your withholding amounts, is just not capable of accounting for all of the changes brought about by tax reform.

The IRS has been working on creating a new Form W-4 which will be more aligned with the changes brought about by tax reform. A draft version is expected by the end of May, with a second draft planned for later this summer. The final version will be released by the end of 2019 in time to use for the 2020 tax year. You can expect the new Form W-4 to be significantly more complex than the current version.

The IRS does have a withholding calculator available on its website to assist you in completing Form W-4. The calculator is available at www.irs.gov/payments/tax-withholding. In order to use the calculator you will need to have your most recent pay stubs and be able to answer questions about your estimated 2019 income.

Alternatively, your tax professional at Ketel Thorstenson can perform the calculations for you. You will need to provide us with your most recent

(***Reminder to Review Your Withholding*** *continued on page 2*)

*(**Reminder to Review Your Withholding** continued from page 1)*

paystubs and inform us of any family or tax changes that may affect your 2019 tax situation. Now is the time to evaluate your federal withholding to avoid surprises next April. Contact your KTLLP tax professional today at 605-346-5630 for assistance.

DISALLOWED "DOUBLE-DIPPING" IN EDUCATION TAX BENEFITS

LINDSEY NOLAN, CPA, ASSOCIATE

The IRS disallows "double-dipping," which means utilizing more than one tax benefit on the same expenditure. For example, a taxpayer cannot take both the American Opportunity Tax Credit (AOTC) and the Lifetime Learning Credit (LLC) for themselves, or for the same dependent, in the same tax year.

Also, for example, if a taxpayer spends money on tuition and is able to claim one of the education credits, then those same tuition costs cannot be used to offset a Qualified Tuition Program (529 plan) distribution to make it nontaxable. Distributions from a 529 fund in excess of Qualified Higher Education Expenses (QHEE) are considered taxable income to the extent the distribution exceeds the basis in the fund. As such, any QHEE expenses used to calculate the AOTC cannot also be used to calculate the nontaxable portion of the 529 distribution.

QHEE includes any amounts paid for tuition, fees, books, supplies, or any related expense required for attendance at a postsecondary institution by an eligible student who is enrolled at least half-time. Necessary books, supplies, and equipment for a class are qualified, even if these expenses are not paid directly to the school. However, they must be paid directly to an eligible education institution for the LLC.

Here's your planning opportunities: first, room and board expenses are only considered qualified for the 529 plan distributions, and not AOTC; second, only the first $4,000 of QHEE are needed to qualify for the AOTC. As such, use the 529 plan funds for all room and board and any tuition and QHEE in excess of $4,000.

All of these expenses must be paid for an academic period that begins during the tax year, or the first three months of the following year. QHEE can be paid by cash, check, credit card, or loans. If paid with money from a loan, the expenses qualify in the year you actually make the education-related payment, not the year you obtain or repay the loan. You must reduce QHEE by any amount paid with tax-free grants and scholarships. The AOTC can still be claimed in the same year that a tax-free 529 distribution is

Lindsey Nolan, CPA, Associate

made, as long as there are enough expenditures to calculate both separately. A taxpayer will want to determine which option is most advantageous to them in each applicable tax year. Generally, a tax credit that increases a refund or decreases any tax due is better than solely reducing taxable income. Contact your tax professional at Ketel Thorstenson, LLP if you have any questions.

Join the conversation online.

HOW DO I CONDENSE QUICKBOOKS DESKTOP FILES?

Tami James, Senior Associate, QuickBooks ProAdvisor

After many years of using QuickBooks Desktop software, there can be several million data pieces in the database. This data accumulation can cause the software to run slowly and make users wonder if they should convert to a different program. Before switching systems, consider condensing the data first – then see if further action is still desired.

The QuickBooks definition of "condensing" the data includes taking all transactions for a particular client or vendor and summarizing it into a single journal entry. There is an option to have the entries posted by year or by month – and some transaction types are available for exclusion. (This exclusion is global – not by vendor/customer/account basis.)

Before running the condense process, the files should be reviewed and adjustments made where necessary. The following is a step-by-step guide to condensing QuickBooks files. The instructions are based on QuickBooks Desktop 2019 – however, versions 2016 – 2018 should be able to follow them as well.

1. Clean up the files
   a. Look at outstanding/uncleared checks and deposits that may be hanging around.
   b. If they cannot be cleaned up before the files are condensed – the archive date selected should be older than the outstanding items.

2. Create a Local Backup to an external (USB) drive
   a. Name it whatever you like, and add "Archived" at the beginning so the file can be easily identified.
   b. This will be the "go-to" for review of any detailed pre-condense date information.

3. Sign into QuickBooks Desktop as Administrator.

4. With all other windows closed – go to File / Utilities / Condense Data.

5. A window will pop up with options to "Condense your company file."
   a. Option 1: Keep all transactions, but remove Audit Trail Information to date – this option does just what it describes – and identifies how the choice will affect file size.
      i. NOTE: This option does not allow for date options. The transactions will remain intact, but existing transactions will no longer have edit history for later review.
      ii. This option is not typically recommended due to the minimal space gain and the extensive history loss.
   b. Option 2: Remove the transactions you select from your company file – Condense Data
      i. Remove "Transactions before a specific date" - Choose the first day of the year for the data being kept (For example: if keeping (5) calendar years - then choose 1/1/2014).
      ii. "All Transactions" – This will remove all detail, leave only lists and preferences, and may be used if copying company files but not transaction detail
      iii. "Transactions outside of a date range" – This will keep the data within the range and remove

Tami James, Senior Associate, QuickBooks ProAdvisor

(How Do I Condense QuickBooks Desktop Files? *continued on page 4)*

(***How Do I Condense QuickBooks Desktop Files?*** *continued from page 3)*

everything else. Companies wanting to prepare a period copy of the file would use this option.

iv. Once the best choice has been made and related dates selected - click "Next."

c. How Transactions Should Be Summarized: On the next screen, choose whether to have one summary journal entry or monthly journal entries – and the system defaults to creating one journal entry. This option is not recommended. (See ii. Below)

i. The single journal entry option will compress all previous transactions into one journal entry as of the beginning date selected.

ii. The recommended option is the summary journal entry for each month.

1. This will allow for a Balance Sheet and Profit & Loss statement to be created for the periods condensed.
2. It replaces the transaction details for that month.

iii. DO NOT CHOOSE THE "Don't Create a summary" entry – using this option will result in having to create opening balances for every account.

d. How Should Inventory Be Condensed?

i. If you use inventory items – this will be your next screen.

ii. Choose to either summarize the inventory or keep the transactions.

e. Do You Want To Remove The Following Transactions?:

i. This screen will either follow the inventory options (d.) or - if you do not use inventory items – this will be the next screen after the Transactions Summary screen (c.).

ii. This screen provides the opportunity to remove uncleared bank and credit card transactions, unprinted transactions, and so forth.

iii. The removal of these items has the potential to cause issues with bank reconciliations invoices, and so forth.

iv. Click on the "Select None" button to let these outstanding items remain, and click Next.

f. Do You Want To Remove Unused List Entries? Screen allows for the cleanup of cluttered lists.

i. Review and decide if you're okay with paring down the respective lists and don't see any issues with removing them.

ii. Unclick any that should be kept whether they're used or not.

iii. Then click "Next."

g. The final screen Begin Condense is advising that your data will be condensed and may take several minutes/hours.

i. This is the final opportunity to go back and adjust or cancel the condense process.

ii. If the files are large - expect it to take a long time – maybe start it before leaving for the night and let the condensing process run.

h. The screen will go grey for a short time, and then the working/condensing screens will appear.

i. When the process has been completed – a message will appear that advises of a backup made, where it's located, and confirms the condensed transaction date.

i. If you didn't make

(***How Do I Condense QuickBooks Desktop Files?*** *continued on page 5)*

(*How Do I Condense QuickBooks Desktop Files?* continued from page 4)

a backup of the files before you started – make a note of the file location.

ii. Click "OK," and the screen goes grey again.

j. Click "Home," and you're back in business.

To Summarize – running this process will remove all transactions before the specific date chosen and replace them with the single monthly or final summary journal entry – depending upon which option was selected. This is preferable over the costly and time-consuming process of converting to new software or creating a new company. The archive data is still available from the backup, the software should run better and faster, and the recent years' details are still easily accessible.

If this seems like it will help speed-up the QuickBooks software performance – but is not something you want to tackle – feel free to contact Ketel Thorstenson LLP and let one of our QuickBooks ProAdvisors do the heavy lifting!

ROTH IRAS : SLICK STRATEGY OR EVIL SURTAX

GREG MINER, CPA, MANAGER

The fact is most taxpayers like the idea of having tax free income and paying less income taxes. It is true, qualified Roth retirement accounts can provide tax-free income to you during retirement, but what cost might you pay for this gratitude?

For example, you contribute $5,000 per year to a qualified Roth retirement account for 30 years. At 7% annual return the account will allow you then to withdraw $46,000 per year over 20 years. Combined with $20,000 annual social security income, your income would be $66,000 per year. With today's tax rates, and assuming you were married, you would pay no income tax on that amount.

Now, let's take the same facts, but instead you contribute $6,580 to a qualified deferred account like a traditional 401k or traditional IRA. If you were in the 24% tax bracket you would have the same net outlay of $5,000 due to the immediate tax savings. Assuming the same rate of return, the account, combined with social security would provide $79,000 in taxable income over 20 years. And while this extra income will cause your social security to be taxable, the total tax would only be $5,500 for an after tax income of $73,500.

Wow, by having used the deferred account in the second example, your after-tax income is $7,500 more each year for 20 years! Why did this work out that way?

It is simple, when contributing after-tax dollars to a Roth account you are locking in today's marginal tax rate on those contributions, and paying the tax---at 24% in the example. However, a regular IRA works just the opposite: When contributing to a deferred retirement account you are getting a deduction at your top marginal tax rate, then later paying income tax using marginal rates that were lower, in the example.

So which is the right answer for me? Roth or Regular? Well that depends, and this article oversimplifies the mathematics and other considerations, such as that Required Minimum Distributions are not required for Roth IRAs. Also, there is a bit of gaming involved as we don't know the tax rates in retirement, nor will

Greg Miner,
CPA, Manager

we know your income. But it generally comes down to this: If you are in a low tax bracket today (12% or less), the ROTH is a no-brainer. However, if you are in a high tax bracket today---and you expect to be in a lower bracket in retirement, it is generally better to take the tax benefit today. After all, we all know the saying about a bird in the hand vs. the one in the bush.

Not all taxpayers or situations are created equal. Please consult your tax advisor and financial advisor before making any changes to your current retirement plan.

WHAT SHOULD I CONSIDER WHEN WANTING TO SELL MY BUSINESS?

ERICKA HEISER, MBA, CVA, DIRECTOR

You have spent decades building your business but the time to sell is on the horizon. What now? From a valuation perspective, consider the following:

- **Clean Financials**- Ensure no personal expenses or assets used for personal use are on the books. Go through your depreciation schedule to exclude any fixed assets that are no longer owned by the company or that will not be included in the sale.
- **Real Estate**- Decide whether real estate will be included in the business. If so, obtain value. If not, estimate a fair market rent and draft a rental agreement.
- **Contracts**- Determine if contracts can be transferred to a buyer.
- **Buyers**- Make a list of possible buyers. Visit with employees to see if one or a group is interested in buying.
- **Selling Price**- Contact your certified business appraiser to assist in determining a reasonable sales price. It's important not to set the price too low and leave money on the table. Conversely, setting the price too high may disgruntle potential buyers.

Ericka Heiser, MBA, CVA, Director

Working towards selling should begin three to five years prior to the desired sale date. Call the KTLLP Valuation Team to assist with a successful sale!

CONSIDERATIONS WHEN STARTING A BUSINESS

ALICIA BURGHDUFF, EA, MANAGER

Starting a business or being your own boss can be incredibly satisfying and fulfilling. Businesses provide financial flexibility unlike when one is employed, and can act as a source of inheritance for your beneficiaries or spouse. The new venture requires an individual with perseverance, because it will take the owner committing his or her time---maybe every waking hour, to build a successful business.

Developing an idea

Before one can start a business, there has to be an idea that will determine the type of business and opportunities available in the business. For example, brainstorming with the Maslow Hierarchy of Need may provide some viable business ideas. Also, leveraging existing life and work experiences might help in coming up with an opportunity.

Feasibility Study

After the idea is developed, the most important part of ensuring the idea is viable is to conduct a feasibility study. This will help gauge whether the business idea has a good chance of success. The feasibility study identifies competition, the market target, uniqueness of the idea, and other factors such as technicalities involved in developing the idea, human resources factors, financial capital, and legal requirements. Knowing the economics of the business will help the entrepreneur make pertinent decisions. In addition, researching whether the business idea is practiced elsewhere or is a brand new concept will aid in determining viability---after all, why reinvent the wheel?

Determine the reason for starting the business

A business idea can be effectively implemented if the owner has a close personal connection to it. This requires the owner to examine the goals and expectations of developing a new venture. There are several motivating factors: independence, personal fulfillment, lifestyle change, income improvement, respect, and control. If you have a good idea and a solid reason to start the business, the next step is to develop a business plan.

Business Plan

A business plan is important as it contains all strategies needed to make your business a success. It should contain an executive summary which gives a brief overview summarizing what appears in the business plan; reveals the mission statement, and explains why the venture is being started. The business plan acts as a blueprint and helps the business owner make decisions on whether to proceed or abandon the venture.

Alicia Burghduff, EA, Manager

- The business description is contained in the business plan and it describes the business legal structure. Generally we recommend the use of Limited Liability Companies. This part also describes how the business will stand out in the market and the type of products or services that will be offered and target clientele.
- The market analysis describes the ins and outs of the industry, and the specific market approach.
- The SWOT analysis is used to identify strengths, weaknesses, opportunities, and threats that might affect the success of the business.
- The management and organization description tells who will help in running the business. If it is a sole proprietorship family members may be

(***Considerations When Starting a Business*** *continued on page 8*)

(***Considerations When Starting a Business*** *continued from page 7)*

included. The structure of the organization is developed showing a chain of command.

- A breakdown of products and services is developed which gives detailed information on how the product will be developed and sold. Also it will describe the material suppliers and outline the cost of manufacturing.
- The marketing plan describes how the products or services reach the customer, and the budget that will facilitate the delivery of the products. Considerations within the marketing plan should include developing a website. Be sure to choose an internet address that is easy to remember. It should be able to support customer traffic and offer fast processing.
- A sales strategy describes how the product will be sold. It may include advertisements, personal selling, discount strategies and promotional methods.
- The funding component discusses the amount needed to make the business a success. The capital may be obtained from a venture capitalist, angel investors, family members, equity, debts, sale of personal assets and other approaches of getting funds.
- The last component is developing a financial projection which shows the breakeven of the business. I suggest projected financial statements that describe the financial performance over at least the first 12 months of operation.

Decide on Vendors and Suppliers

Consideration should be given to what services the business will need and selecting the right vendors to work with such as cleaning, maintenance, security, insurance, accounting, and retirement plans.

Rent or lease?

Before opening a business one should make a decision on whether to lease or rent facility space and/or equipment. Leasing may act as an off-balance sheet transaction, and with no down payments required, this may improve the credit of the firm. However, leasing may be more expensive in the long run and it probably does not allow for up-front income tax expensing.

These are just some of the key considerations to evaluate when starting a new business. For additional assistance call the KTLLP Team for a consultation or request a copy of *Is Owning a Business Right for You?*, an electronic booklet written by the tax and valuation experts at KTLLP.

ESTATE TAX RETURNS: WHAT TO DO WHEN A LOVED ONE PASSES

Kristal Hamm, CPA, Senior Associate

My loved one just passed on, now what? Do we need to file a final Form 1040 tax return? How about a Form 1041 fiduciary tax return? Is a Form 706 necessary? When are all these tax returns due? These are all the questions that may run through your head after a loved ones passing. I can help you walk through this difficult time and decide what needs to be filed and when.

A final Form 1040 is required to be filed if your loved one had gross income of $12,000 or more prior to their passing. A final Form 1040 will need to be filed if there is income tax withheld that can be refunded to the decedent's estate. The final Form 1040 is due April 15th.

A fiduciary tax return or a Form 1041 will need to be filed if the estate received income of $600 or more. The income would include but is not limited to: interest income, sale of personal property, sale of personal residence, business income earned, any rental income, etc. Some expenses that can be deducted to offset income would be accounting and legal fees, selling expenses, utility costs, cleaning expenses related to decedent's assets, brokerage fees, bank charges, etc.

The executor and tax preparer will decide if the tax return will use either a calendar year end or a fiscal year end. A calendar year end would mean the first Form 1041 would include income and expenses from the date of death through 12/31 of that year. The following years' returns would be for a full calendar year from January through December. The due dates for the returns would be April 15th of the following year. If the executor chooses to file a fiscal year return he or she can pick any month end and the fiscal year would be the next preceding twelve months. An example: date of death is July 20th, 2019, the return would have a fiscal year of July 21st 2019 to June 30th 2020. Another option would be to shift the fiscal year to match the income and expenses, i.e. Aug. 2019 through July 2020 for a fiscal year end.

What is a Form 706? The Form 706 is used to calculate federal estate tax. The return is a snapshot in time of assets and debt the decedent had as of the date of death. For 2018, a Form 706 is required to be filed if a decedent's gross assets were more than $11,180,000. This number is indexed for inflation every year. This includes but is not limited to: bank accounts, brokerage accounts, personal assets, personal home, vehicles, other property, businesses, livestock, crops, etc.

Another reason to file a Form 706 would be for portability. If your spouse passes on and your joint gross estate has the potential to be more than $11,180,00 when you pass on then we recommend Form 706 is filed for the surviving spouse. An example is if joint assets total $9,000,000 when your spouse passed on and all assets passed to you, then you would be able to add an additional $11,180,000 to your original $11,180,000 estate tax exemption for a total of $22,360,000. Basically your decedents and other beneficiaries would be able to inherit your assets without paying estate tax. Portability can be very valuable, since the estate exclusion amount is set to revert to 2017 exclusion amount of $5,000,000, indexed for inflation after 2025. The Form 706 is due nine months after the decedent's death. Using the example above, July 20th, the due date would be March 20th, 2020.

Kristal Hamm, CPA, Senior Associate

Obviously this is a complex situation to cover. If you think you may be subject to any of these tax returns, please give us a call and we would be happy to help you.

Got Questions?

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2 HOUR TRAINING SESSION $160* plus tax

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Training session time can be broken down and used in smaller increments. *All time must be used by December 20, 2019

QUICKBOOKS BASIC CLASS

Date: June 25, 2019

Time: 8:30 am – 3 pm

Price: $279

Both classes Located at the KTLLP Rapid City Office, 810 Quincy St.

Class size limited. RSVP to rsvp@ktllp.com or 605-716-3284.

QUICKBOOKS ADVANCED CLASS

Date: August 27, 2019

Time: 8 am – Noon

Price: $199

KT News

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

— NEW HIRES —

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Heather Grace
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Accounting Services Department

Javan Andrews
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Jeanette Lundquist
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Shane Brooks
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Shannon Fischer
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