

THE KT ADDITION

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Friends for Life.

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WHAT TO EXPECT FOR YOUR 2018 TAX FILINGS

JENNIFER KONVALIN, CPA, PARTNER

As we quickly approach the 2018 income tax filing season, you may be wondering how the Tax Cuts and Jobs Act (TCJA) may affect your tax return. Here are some items that will affect the majority of taxpayers this year:

Reduced Tax Rates – Lower individual tax rates - 10%, 12%, 22%, 24%, 32%, 35% and 37% for tax years 2018-2025. Everyone will benefit from this reduction in our tiered tax system. The brackets have also expanded so more income will be taxed at lower rates.

Capital Gain Rates – No change to these rates from the prior tax law. The capital gains rates still range anywhere from 0% to possibly upwards of 23.8% with the most common rate being 15%. The amount of income that can be taxed at 15% has also increased. There are still planning opportunities for taxpayers to qualify for the 0% rate.

Deductions

Historically, taxpayers have



Jennifer Konvalin,
CPA, Partner

the option of using the higher of your standard deduction or itemized deductions. This is still true in 2018.

The **standard deduction** almost doubled for taxpayers for 2018. The married filing joint deduction is now \$24,000, while the single deduction is now \$12,000. The extra deduction for the elderly or blind still exists and are slightly higher than 2017.

(What to Expect for Your 2018 Tax Filings continued on page 2)

Filing Deadlines for Forms W-2 and 1099-MISC for 2018 Tax Year

Payroll tax filing dates for W-2s and 1099 forms were changed for 2016 taxes, and these changes continue for reporting 2018 income. The filing deadline for 2017 W-2s and 1099 forms (including Form 1099-MISC) is January 31, 2019.

The deadline for providing W-2 forms to employees and 1099-MISC forms to other workers for 2018 has not changed. This deadline is still January 31, 2019.

Note to employers: To avoid errors in W-2 forms, make an effort to get these forms to employees before the end of January, so there is time for errors to be corrected before filing these forms with the Social Security Administration.

(What to Expect for Your 2018 Tax Filings continued from page 1)

Itemized deductions

still include things like taxes, mortgage interest, medical deductions and charitable deductions.

Taxes paid for property taxes, state income taxes, and state sales taxes are now capped at a cumulative \$10,000 per year.

Charitable donations are still deductible. The limit for charitable donations increased from 50% of AGI (adjusted gross income), to 60% starting in 2018.

Other miscellaneous itemized deductions such as unreimbursed employee expenses, investment expenses and most legal fees were eliminated.

Mortgage interest is still deductible, while line of credit or home equity lines of credit (HELOC) have many more rules placed on them. In general HELOCs are now required to be used for purchasing, building or improving your first or second home and be secured by that property to be deductible. We aren't intentionally being nosey about your exciting life when we ask a lot more questions about your HELOCs. There were also changes to the limit of the mortgage indebtedness that allows the interest to be deductible as well. Those taxpayers with a very high mortgage balance should know this may affect them.

Child Tax Credit

– This doubled to \$2,000 per child under age 17 and a new \$500 credit added for those over age 17. The phase out income limits on a MFJ return also went from \$110,000 AGI up to \$400,000, so many more taxpayers will qualify for this credit now.

Moving Expenses – eliminated for all but some armed forces moves.

529 Plans – funds can now be used for secondary or elementary private schooling up to \$10,000 per year.

Roth IRAs – no longer allowed to do a “re-characterization” of Roth IRA conversions, so be sure that is what you intend to do and you have the potential funds to help pay the tax on the conversion.

Section 1031 Exchanges – in general, exchanges of any personal property are not allowed to be reported as an exchange any longer. Real property still qualifies to be exchanged under the previous Section 1031 rules.

Estate Tax Exclusion – effective January 1, 2019, the exclusion for decedents is \$11,400,000. The FMV date of death basis rules remain in effect.

Qualified Business Income Deduction (QBI) – the TCJA created a new deduction for individual taxpayers who have QBI. This deduction is generally equivalent to 20% of

the taxpayers qualified business income. See your tax professional for more specific information.

Health Insurance Penalty

– The penalty for not having health insurance was eliminated beginning after December 31, 2018. All other surcharges and penalties related to the ACA remain intact at this point in time.

Entertainment Expenses

– Eliminated in the TCJA for 2018 and forward. Think things like box seats, professional athletic event tickets, concert tickets, etc.

Meals Deduction

– After many questions about the change to this rule in the law, it appears that qualified business meals still qualify as an expense, along with employee appreciation meals, or meals for the convenience of the employer. The rules stayed the same for the documentation requirements of these meals and they continue to be subject to a 50% limitation.

This is not an all-inclusive list, but a brief reminder of the things that may affect your tax filings for 2018 and items you should discuss with your tax preparer.



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TAX CREDIT BUSINESSES MIGHT BE MISSING

MICHELLE MINNERATH, CPA, PARTNER

When business owners hear “Work Opportunity Tax Credit” (WOTC) most think right away they only qualify for this credit if they hire ex-felons or veterans. However, this is not the case. In addition to the traditional categories for the WOTC, a new hire qualifies just by living in a county that is identified as a rural renewal county. The business does not need to be located in the county, the qualification is based on where the employee lives. A rural renewal county is a county in a rural area that lost population during the 5-year periods 1990 through 1994 and 1995 through 1999. For South Dakota the following counties qualify as a rural renewal county: Aurora, Campbell, Clark, Day, Deuel, Douglas, Faulk, Grant, Gregory, Haakon, Hand, Harding, Hutchinson, Jones, Kingsbury, Marshall, McPherson, Miner, Perkins, Potter, Sanborn, Spink, Tripp, and Walworth. There are counties in over 30 states that qualify for this credit.

To qualify for the credit, you have to follow several rules. First, on the day the new hire accepts a job offer, they will need to complete Form 8850, Pre-Screening Notice and Certification Request for the Work Opportunity Credit. This completed form will need to be sent to the South Dakota Department of Labor. The State uses this form to certify the new hire is a member of a targeted group for purposes of qualifying for the work opportunity credit. The State will not accept the applicant if the employer waits and completes the form on the first date of employment. Second, the employee needs to be between the ages of 18 and 40, needs to work at least 120 hours from now through 12/31/19 for the business, and the employee cannot be a dependent or relative to the business owner. The credit is calculated on form 5884 and filed with the federal income tax return for the business. If the business is an S corporation or partnership, the credit will flow through on a K-1 and be taken on the owner’s individual tax return.



*Michelle Minnerath,
CPA, Partner*

Now that you know the rules, what is the benefit? If the employee is paid at least \$6,000 of qualified wages and works at least 400 hours, the employer can get a \$2,400 credit. The credit is reduced if the employee has less than 400 hours or less than \$6,000 in wages. A perk to this credit, there is no cap on the number of eligible people an employer can hire or amount of tax credits that can be claimed each year.

Please consult with your Ketel Thorstenson tax professional if you have questions on the credit.



*Denise Webster, Managing Partner,
presents Mike Finnegan a memento to
commemorate his 45th anniversary.*

KT News - Service Recognition

5 Years of Service

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Carrie Christensen
Ali Eddy
Marissa Duprel
DJ Adelman
Beth Hottel
Kia Smith
Megan Holsworth

Amanda Dennis

Amanda Feickert

10 Years of Service

Susan Schofield

Carol Duvall

Joanna Franke

Mary London

15 Years of Service

Carrie Neuschwander

20 Years of Service

Carol Haivala

25 Years of Service

Brent Siekman

Calvin Augustine

35 Years of Service

Clay Locke

45 Years of Service

Mike Finnegan



TAX CUTS AND JOBS ACT: WHAT IS THE QUALIFIED BUSINESS INCOME (QBI) DEDUCTION AND DO YOU QUALIFY FOR IT?

ALICIA BURGHDIFF, EA, MANAGER

On December 22nd, 2017, President Trump, signed into law the Tax Cuts and Jobs Act (TCJA). The biggest tax overhaul since the Tax Reform Act of 1986, the TCJA created more than a hundred tax provisions, with the QBI being one of the most anticipated and talked about feature of the Act.

What is the QBI?

In April this year, the QBI tax deduction for partnerships, LLCs, S-Corporations, and sole proprietorships was added to the TCJA. A 20% deduction, the QBI is one of the biggest changes for pass-through entities under tax reform.

What are pass-through entities?

“A special business structure that is used to reduce the effects of double taxation. Pass-through entities don’t pay income taxes at the entity level. Instead, entity income is allocated among the owners, and income taxes are only levied at the individual owners’ level.”*

With the introduction of the QBI, taxpayers can now deduct up to 20% of domestic business income attributable to the aforementioned entity structures.

How do I qualify for the QBI deduction?

First and foremost, you must be an owner of a pass-through business/entity. The second and

probably the most important requirement is for you to have Qualified Business Income. This is the net income (profit) your pass-through business generates during the year. You can calculate this by subtracting all your regular tax deductions from your total business income. If the net amount of QBI is less than zero, then the loss is carried over and will lower your QBI in the succeeding year.

How is the QBI tax deduction calculated?

The primary factor affecting the calculation of a taxpayer’s QBI deduction is whether their taxable income is:

- Below a lower taxable income threshold (\$157,500 single, HOH, MFS or \$315,000 joint).
- Above a higher taxable income threshold (\$207,500 single, HOH, MFS or \$415,000 joint).

Case A – Below the Lower Taxable Income Threshold

Calculation of the taxpayer’s QBI deduction when they fall below the lower taxable income threshold is straightforward. The taxpayer first calculates the deductible QBI amount for each qualified business, and then combines these values into a combined QBI amount. If the taxpayer has only one qualified business, the combined QBI



**Alicia Burghdoff,
EA, Manager**

amount is the deductible QBI amount for that business.

The taxpayer then applies the overall taxable income limitation to the combined QBI. Thus, the taxpayers QBI deduction is equal to the **lesser of**:

1. The combined QBI amount, and
2. The overall limitation (20% of the taxpayer’s taxable income in excess of any net capital gain).

Example

Taxpayers A and B file a joint tax return. They report taxable income of \$256,000, of which \$5,000 is net capital gain and \$200,000 is ordinary net income from taxpayer A’s interest in an S corporation. Taxpayer A and taxpayer B’s combined QBI is \$40,000 (20% * \$200,000). This is below the overall limitation

(Tax Cuts and Jobs Act: What is the Qualified Business Income (QBI) Deduction and Do You Qualify for It? continued on page 5)



(Tax Cuts and Jobs Act: What is the Qualified Business Income (QBI) Deduction and Do You Qualify for It? continued from page 4)

of \$50,200 (20% * [\$256,000 taxable income - \$5,000 net capital gain]), so taxpayers A and B's QBI deduction for 2018 will be the \$40,000.

Case B – Above the Higher Taxable Income Threshold

If the taxpayer has taxable income above the higher threshold amount, two issues arise in the calculation of the QBI deduction. First, a business of the taxpayer will not be treated as a qualified business – and the income of the business of the taxpayer will not be included in the QBI – if the business meets the definition of a specified service trade or business.

A specified service trade or business is any trade or business involving the performance of services in the fields of health, law, engineering, architecture, accounting, actuarial science, performing arts, consulting, athletics, financial services, brokerage services, or any trade or business where the principal assets of such trade or business consist of the reputation or skill of 1 or more of its employees or owners. The QBI deduction will be denied in full for these specified services trades or businesses.

Second, if a business is a qualified business, the deductible QBI amount for the business is subject to a W-2 wage and capital limitation.

Example

Taxpayers A and B file a joint tax return. They report taxable income of \$550,000 of which \$350,000 is ordinary income from taxpayer A's interest in an S corporation. The S corporation is a **specified service trade or business**, and thus they will not receive the QBI deduction.

Example

Taxpayers A and B file a joint return in which they report taxable income of \$450,000, of which \$300,000 is ordinary income from taxpayer A's interest in an S corporation that **is not a specified service trade or business**. Taxpayer A's allocable share of the business's W-2 wages is \$80,000, and her share of the business's unadjusted basis in its qualified property is \$600,000.

Taxpayers A and B's wages and capital limitation is the **greater of**:

1. 50% of W-2 wages, which is \$40,000, and
2. The sum of 25% of the W-2 wages (\$20,000), plus 2.5% of the unadjusted basis of the qualified property immediately after its acquisition (\$600,000 * 2.5% = \$15,000) for a total of \$35,000.

The amount of the wage and capital limitation is therefore \$40,000.

A and B's combined QBI is the **lesser of**:

- a) 20% of QBI (\$60,000) or
- b) The wage and capital limitation of \$40,000.

The Combined QBI is \$40,000 before applying the overall limitation of \$90,000 (20% of \$450,000). Thus, taxpayers A and B's QBI deduction for 2018 is \$40,000.

How do I get help with my QBI tax deduction?

Calculating QBI is a complex task, as there are a range of different ways it is calculated depending on a taxpayer's circumstances. This article only describes a brief overview of what QBI is and what it means for you, as well as the basic factors affecting its calculation.

It is important to have a professional prepare your tax return to ensure that you are receiving all the benefits and deductions to which you are entitled. At Ketel Thorstenson, LLC, we are here to help! We have the expertise and experience in tax planning and tax preparation to help you take full advantage of the QBI tax deduction. Get in touch with us today!



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**Source: "Pass-Through Entity." InvestingAnswers.com, 6 Nov., 2018, investinganswers.com/financial-directory/business-corporations/pass-through-entity-1119.*

DIGITAL ESTATE PLANNING: ARE YOU READY?

REX P VIGOREN, CPA, PFS, PARTNER

Do you have a digital footprint? If so, what provisions have you made in your estate documents for the recovery and use after you are no longer here? Our world is becoming more and more based on our electronic use. We can access accounts and handle transactions electronically with our banks, credit card companies, and even our health care providers. You can order almost anything from online companies around the world, including ordering groceries for pickup or delivery. But, have you given thought as to what happens to these accounts when you pass away? Who and how will your digital executor access these accounts?

Michael Kitces (financial planner, author, speaker, and former practitioner editor of the *Journal of Financial Planning*) describes digital assets as anything which is stored in electronic form (but separate from the physical hardware on which the electronic data lives). So, this includes things like cryptocurrencies (i.e. Bitcoin), to your login credentials to your bank, credit cards, social media, music or email accounts.

You may have addressed this challenge by simply writing down all of your usernames and passwords and made them available to a trusted family member or advisor. However, the legal profession identifies a hacker as anyone who knowingly accesses a computer or account without proper authorization. Accordingly, the Computer Fraud and Abuse Act and the Electronic Communications Privacy Act provides punishment by law for hacking. So, if someone other than yourself accesses your

account, they are technically hacking and punishable by law.

The current law regarding protection of digital assets, the Revised Uniform Fiduciary Access to Digital Assets (RUFADDA) has had a rocky road since 2014. However, currently, almost 40 states have adopted RUFADDA, with another five jurisdictions introducing consideration of the digital assets legislation. South Dakota adopted RUFADDA July 1, 2017, Wyoming enacted legislation on July 1, 2016; however, neither North Dakota nor Montana have been able to enact any such legislation.

Are you aware, if your estate documents do not address and grant post-death authority to your digital executor, access to your digital accounts may be lost. For example, each of the internet browsers (Google, Microsoft, Yahoo) all have Service Agreements or Terms of Service which most of us have not read, but all marked “agreed” when we set up the account. These agreements have different positions of what happens to the account when a user passes away, and limitations on who may access the account. Google’s Inactive Account Manager will allow a “trusted contact” to be named and if desired, to share information with this contact. Or, the user can direct Google to delete certain information. Facebook’s Legacy Contact contains similar features.

Be aware, if you use these online tools, referred to above, and name someone other than your digital executor identified in your estate documents, account access will be granted to the named individual contained in the online tool, and



*Rex P Vigoren,
CPA, PFS, Partner*

not your digital executor. Under RUFADDA, use of the custodian’s online tool will render all other instructions (including the estate documents) irrelevant. However, if the online tool is not available or not utilized, RUFADDA will then look to the estate documents granting access to the deceased account by the digital executor.

It is imperative we correctly manage and ensure continuing access to our digital accounts at our passing. Accordingly, estate documents should contain identification and access to our digital assets and consider the appointment of a digital executor. Our individual digital footprint will continue to expand. How we and our trusted advisors plan for this inevitable outcome is definitely a conversation which must be undertaken now. The trusted advisors at Ketel Thorstenson are always available to assist you with these and other estate planning challenges.



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UNDERSTANDING BUSINESS VALUATIONS: DID YOU KNOW?

ERICKA HEISER, MBA, CVA, DIRECTOR

Do you know the various project types offered by the Business Valuation Team at Ketel Thorstenson, LLP?

Traditionally, the Team has offered business appraisals for various industries and various purposes including gift, estate, marital dissolution, buying and selling, shareholder dissolution, etc. However, the Team is so much more than the traditional business appraisal! We also offer the following:

- **Fractional Interest Discounts-**

When real estate is owned equally by two or three partners, no one partner has unilateral control to force the liquidation of such property. Consequently, we calculate a reasonable discount to apply to such fractional interest.

- **Damage Calculations-** We calculate damages of lost revenues for businesses who have had business interruption due to fire, flood, etc. We also calculate the loss of future earnings and lack of household responsibility support due to wrongful death or injury.

- **Life Estate Calculations-** Sometimes an individual will sell his/her property to someone (oftentimes an adult child) but retain the right to live or use the property until his/her death. This is referred

to as a life estate. The value of the life estate is often needed for insurance or Medicaid purposes. As such, we provide calculations of the estate value.

- **Start-Up Business Investor Packets-** Founders of start-up businesses contact us to assist them in projecting financial statements not only for their own use but also to provide to potential investors in such businesses. We also assist with creating a well-organized packet for investors to digest to fully understand all aspects of the project. We work closely with local attorneys for the necessary legal documents.
- **Buy-Sell/Operating Agreement Assistance-** We work with clients and their attorneys to ensure the language is appropriate from a business valuation analyst's perspective in both creation and revision of such agreements.
- **Expert Witness Testimony/Trial Consultation-** Whether an attorney needs someone to testify as an expert witness in business valuation matters or simply someone to consult for trial preparation, we fill the need. With our knowledge and experience, we assist attorneys in writing and reviewing expert witness direct and cross examination. Moreover, we



*Ericka Heiser,
MBA, CVA, Director*

assist attorneys and clients with settlement negotiations and opposing expert report review.

- **Fraud Examination-** Nina Braun is an Audit Partner at KTLLP. She is also a CPA and a certified fraud examiner (CFE) who has assisted many clients and attorneys with examining financial records for fraud, or lack thereof.

With more than 40 combined years of experience in Business Valuation and wide array of services offered, we are here to serve your needs. Call today to see how we can help you.



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TAX-FREE IRA DISTRIBUTIONS TO CHARITY

CARRIE CHRISTENSEN, CPA, MANAGER

Upon reaching age 70 ½, owners of traditional IRAs must begin taking required minimum distributions. If you are in a position to not need the funds from your IRA distribution for living expenses and have a desire to donate to charity, qualified charitable distributions may be a tax saving tool you can use.

What is it?

Qualified charitable distributions (QCDs) are IRA distributions that are distributed directly from the IRA custodian to the charitable organization. This makes an otherwise taxable IRA distribution, tax-free. However, since the distribution is not subject to federal income tax, the charitable deduction is likewise disallowed.

What are the benefits?

Since the standard deduction has doubled, many people no longer itemize their charitable deductions. As such, QCDs can equate to a 100% above-the-line tax deduction. For example, a QCD might save someone \$2,500 in tax on a \$10,000 donation. That's real money! Second, donating to charity in this way bypasses the annual 60% of adjusted gross income (AGI) limitation on contributions. Third,

since QCDs are not included in a taxpayer's AGI, the chances are minimized of being negatively impacted by other AGI based tax provisions such as the taxability of social security benefits and the phase-out rule for the \$25,000 rental real estate loss exception.

What are the Specifics?

- On the date of distributions, QCDs are only available to taxpayers age 70 ½ and older.
- The QCD satisfies the required minimum distribution requirements.
- The distribution must be distributed directly by the IRA custodian to the charitable organization. The taxpayer cannot receive the distribution and then donate the funds to charity. This is very easy to do by the way, as IRA custodians do this all the time!
- The charitable organization must be a qualified public charity [501(c)(3)] and cannot be a private foundation or donor advised fund.
- QCDs may be made from traditional IRAs, inactive SEP IRAs, inactive SIMPLE IRAs, and Roth IRAs (in certain circumstances). It is typically more advantageous



Carrie Christensen,
CPA, Manager

to make the distribution from a traditional IRA over a Roth IRA. The rule cannot be used for distributions from ongoing SEP accounts, ongoing SIMPLE accounts, or qualified retirement plan accounts such as 401(k) or 403(b) accounts.

- The maximum amount allowed per taxpayer per year is \$100,000.

If you are interested in learning more about how you may benefit from making qualified charitable distributions, contact your Ketel Thorstenson tax professional at 605-342-5630.



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SUSPENSION OF 2% MISCELLANEOUS DEDUCTIONS ON SCHEDULE A: HOW TO CLAIM UNREIMBURSED EMPLOYEE EXPENSES

KIM RICHTERS, ASSOCIATE

The Tax Cuts and Jobs Act (TCJA), passed in November of 2017, made a number of changes to itemized deductions. One that may have drastic impact on you is the elimination of all miscellaneous itemized deductions subject to 2% of adjusted gross income. This includes unreimbursed employee expenses, non-business tax preparation fees, and other expenses such as legal fees, broker fees, and safe deposit boxes. Previously, if an employee was not reimbursed for ordinary and necessary business expenses, they could be claimed on Schedule A. For some taxpayers, the out-of-pocket expenses spent as an employee can be significant and this change will cause a substantial increase in the taxpayer's tax bill if steps are not taken.

It should be noted that certain business expenses of reservists, performing artists, and fee-basis government officials that are claimed on line 24 of 1040 are not affected by this change.

There are now three ways to either have the company pay for expenses or to claim the expenses other than on Schedule A.

The first option is for employers to pay directly or reimburse for the business expenses. The goal of the TCJA was to push employers into adopting accountable and nonaccountable

plans. An accountable plan would be when an employee incurs expenses and submits receipts to the employer who then reimburses the employee. These reimbursements are non-taxable and the expenses are not claimed as deductions by the employee. A plan is nonaccountable when an employer provides an allowance or advance to the employee to use for business expenses. Any unused allowance should be returned to the employer otherwise it is considered taxable income to the employee on a W-2. Accountable plans are not required of employers.

The second option is to switch to an independent contractor and be issued a 1099 instead of being treated as a W-2 employee. The income would then be treated as self-employment income and reported on a Schedule C. This would allow for the expenses to be claimed against the income. This is not an ideal solution as many overhead costs that are incurred by an employer would now fall completely on the taxpayer's shoulders. This option is not automatic and comes with IRS scrutiny. Carefully consider this with your tax preparer.

The third option for certain types of employees is to be classified as a statutory employee. A statutory employee is defined by the IRS as an independent contractor under



*Kim Richters,
Associate*

common law rules who may be treated as employee by statute for certain employment tax purposes. Their status is indicated on a W-2 by marking the statutory employee box. There is no harm to employers to mark this box; therefore, if an employee should be considered statutory and is incurring expenses that are not reimbursed, they should request a W-2 from their employer with this designation.

A statutory employee falls into four categories:

1. A driver who distributes beverages (other than milk) or meat, vegetable, fruit, or bakery products; or who picks up and delivers laundry or dry cleaning, if the driver is your agent or is paid on commission
2. A full-time life insurance sales agent whose principal business activity is selling life

(Suspension of 2% Miscellaneous Deductions on Schedule A: How to Claim Unreimbursed Employee Expenses continued on page 10)

(Suspension of 2% Miscellaneous Deductions on Schedule A: How to Claim Unreimbursed Employee Expenses continued from page 9)

- insurance or annuity contracts, or both, primarily for one life insurance company
3. An individual who works at home on materials or goods that you supply and that must be returned to you or to a person you name, if you also furnish specifications for the work to be done
 4. A full-time traveling or city salesperson who works on your behalf and turns in orders to you from wholesalers, retailers, contractors, or operators of hotels, restaurants, or other similar establishments. The goods sold must be merchandise for resale or supplies for use in the buyer's business operation. The work performed for you must be the salesperson's

principal business activity.

Additionally, they must be able to show that most or all of the duties performed are done personally by the employee, that they do not have a substantial investment in the equipment or property used in performing their duties, and that the duties and services are performed on a continuing basis for the employer.

Being classified as a statutory employee means the employee can carry the W-2 income to Schedule C. Now the disallowed 2% miscellaneous unreimbursed employee expenses can be claimed. This is especially advantageous because the employee still gets the benefit of having half of Social Security and Medicare taxes paid by the employer as well as accessing

any benefits the employer provides including liability protection.

Additionally, the expenses are no longer subject to the 2% floor of AGI and can be claimed at 100%.

However, the taxpayer needs to be aware that federal income tax is not withheld on the W-2 once statutory employee is noted so you should work with your tax preparer to ensure that timely estimated payments are made or risk penalties being assessed.

While on the face this seemed like a small change, you can quickly see how this might impact you and your tax situation. If you have further questions, don't hesitate to contact your KTLLP tax professional.

SHOULD WE FILE MARRIED FILING JOINTLY OR MARRIED FILING SEPARATELY?

KIA SMITH, CPA, SENIOR ASSOCIATE, QUICKBOOKS PROADVISOR

If you are married, you more than likely file your income tax return as married filing jointly. However, you also have the option to file as married filing separately. In most cases married filing jointly will yield the lower tax and provides more tax credits. However, sometimes filing separately can reduce your tax bill. Let's go over some items to help determine which filing status might suit your personal situation.

Married filing separately is most often used when each spouse wants

to be responsible for only their respective taxes, even though it usually yields a higher tax bill. This usually occurs during situations of marital separation. When filing separately you need to be aware of these negative IRS parameters:

- ✓ Cannot take the American Opportunity and Lifetime Learning education credits, student loan interest deductions
- ✓ No exclusion on interest income from U.S. bond interest for education expenses



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

(Should we file Married Filing Jointly or Married Filing Separately? continued on page 11)

(Should we file Married Filing Jointly or Married Filing Separately? continued from page 10)

- ✓ Cannot take the Child and Dependent Care Expenses in most cases
- ✓ No exclusion or credit for adoption expenses in most cases
- ✓ No earned income tax credit
- ✓ Limits the contribution to a Roth IRA or deduction for a traditional IRA contribution
- ✓ May need to include more income with Social Security benefits
- ✓ May not be able to claim the elderly or the disabled credit
- ✓ Retirement savings contribution and child tax credits may be reduced
- ✓ Capital is limited to \$1,500 instead of \$3,000 if you were to file jointly
- ✓ If one spouse takes the standard deduction, the other spouse can't itemize, you both have to itemize or take the standard deduction
- ✓ When taking the standard deduction, \$12,000 is taken separately; if filing jointly the standard deduction is \$24,000

Now that's a long list, and you may be thinking you're going to file jointly, but there are some situations where married filing separately can

result in tax savings and here are a few items that might benefit you.

- ✓ If you and your spouse itemize on separate returns and have high AGI, with large out of pocket medical expenses, you might be able to deduct medical cost that exceeds 7.5% of your AGI in 2018. In 2019, the percentage changes to 10%
- ✓ Charitable contributions
- ✓ Personal casualty losses that exceed 10% of AGI in a federally-declared disaster area
- ✓ Taking advantage of the new 20% QBI deduction for professionals

Married taxpayers automatically think filing separately will relieve them from the tax liability of their spouse. If you are worried or concerned with decreasing your tax liability by filing jointly and getting your share of the refund here are two ways that might help:

Form 8379 is used to relieve you from your spouse tax liability. This form is for the injured spouse to get back your share of the jointly filed refund when an overpayment is to be applied to a past-due amount of the other spouse.

Form 8857 is the Request for Innocent Spouse Relief when filing a joint tax return both you and your spouse are both jointly and severally liable for the tax liability, interest, and penalties that are due. If within 2 years of becoming aware that your spouse or former spouse should be held liable for the tax on a jointly filed return, you may be able to file this form to request relief if you meet all of these IRS conditions:

- ✓ Your spouse omitted income or claimed false deductions or credits
- ✓ A fraudulent scheme to defraud the IRS or another third party, creditor, ex-spouse or business partner
- ✓ Divorced, separated or no longer living together
- ✓ If taking into account all the facts and circumstances, it would be unfair to hold you liable for the understatement of tax

Your tax advisor here at Ketel Thorstenson is available to go over your unique situation to see which filing status is best for you. Call today for assistance and to go over any questions.

HAVE QUICKBOOKS QUESTIONS?

GET ANSWERS

CALL THE KTLTP QUICKBOOKS PROADVISORS TEAM.



QuickBooks. RAPID CITY 605-342-5630, SPEARFISH 605-642-7676

THE NEW KIDDIE TAX RULES

LINDSEY NOLAN, CPA, ASSOCIATE

Big changes are happening to the kiddie tax for the years 2018-2025. The Tax Cuts & Jobs Act repealed the kiddie tax policy and replaced the tax rates applicable on dependents' unearned income with the same rates that apply to trusts and estates. Unearned income includes taxable interest, ordinary dividends, capital gains, rents, unemployment compensation, etc. Scholarships are exempt. The new structure will be unfavorable for most children, as it causes more kids to file tax returns and likely pay more tax than ever before. In the past, income subject to kiddie tax was taxed at the parents' marginal rate. Now, in attempt to simplify the old complex process, the parents' rate and any siblings' unearned income will no longer matter. Instead, investment earnings in excess of an annual amount (\$2,100 for 2018) will be taxed using the compressed rate brackets below:

- Up to \$2,550 10%
- \$2,550 to \$9,150 24%
- \$9,150 to \$12,500 35%
- Over \$12,500 37%

To calculate the kiddie tax, a child's net earned income is added to net unearned income, then reduced by the standard deduction amount, to arrive at taxable income.

The portion of taxable income that consisted of earned income is taxed at regular single taxpayer rates, while the unearned income portion that exceeds the threshold is subject to the above trust and estate tax rates.

The kiddie tax applies when the following requirements are met:

- The child is required to file a tax return for the year
- The child does not file a joint tax return
- At least one parent is alive
- Net unearned income exceeds the annual threshold (\$1,050 in 2018)
- The child has positive taxable income
- At least one of these age rules are met:
 - Age 17 or under at 12/31
 - Age 18 at 12/31 and does not provide half their own support
 - Age 19-23 full-time student and earned income does not equal half his or her support

Even if a dependent files his or her own tax return, the parent can still claim the child on their tax return, assuming the dependent did not provide over half their own support during the year. In some cases, it is



*Lindsey Nolan,
CPA, Associate*

more beneficial for a parent to elect to claim a dependent's income on their tax return, as long as certain criteria are met. This would be accomplished using Form 8814 (Parents' Election to Report Child's Interest and Dividends). Although the kiddie tax laws were designed to discourage the shifting of income-generating assets into children's names, these recent changes could actually have the opposite effect under some circumstances.

While the new "Kiddie Tax" is easier to calculate, it can be more expensive for children with significant unearned income. Please contact your tax professional at Ketel Thorstenson if you have tax planning questions.



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TROUBLE SHOOTING ISSUES IN QUICKBOOKS BILL PAY WINDOW

KRISTAL HAMM, CPA, SENIOR ASSOCIATE, QUICKBOOKS PROADVISOR

QuickBooks tries to make things easy or intuitive - but that is not always the result. For instance, entering invoices and then paying the bill later. It sounds easy and, theoretically, it should be easy. There are a lot of things that can and do go wrong - even with the experienced user. See below for some of the more common issues, errors, and situations.

There is an outstanding bill from last year. It has already been paid, needs to be removed from the bill pay window, but you are not sure what to do. Most likely when your accountant prepared the prior year's tax return, the outstanding bill was accounted for in some way - so now it would be unwise to delete the bill. The recommended way to clear out the outstanding bill is to go to Vendor\Enter Bills\ and then create a CREDIT with the same information as the original invoice (vendor, amount, and account) using the current date. The next step is to go into Vendors\Pay Bills, and then select the old invoice to be paid. The credit should then be applied to the stale bill and the transaction recorded. This process clears the outstanding bill, so you don't have to keep looking at it every time you go to pay bills, and it keeps the prior year balances true.

That's all well and good, but what if you don't know how to set a discount or a credit? If, as in the above example, you are clearing

a transaction out or you returned items you have an invoice for, then you'd create the credit as advised above. Once you go to "Pay Bills" you select the bill you want to pay and then click the "Set Credits" button below. This will bring up all applicable credits for this vendor. From there you choose what you want and set the credits. If there isn't a credit available, but you are paying a bill within a designated trade discount period, then you can set the discount in the "Pay Vendors" window as well. Begin by selecting the vendor to be paid, and then click "Set Discount" below. Enter the discount allowed and then choose the account to offset with this discount. Some options may include: Other Income, creating a "Trade Discount" income account, or crediting the expense account to reduce the overall expense line item, (example: Cost of Goods Sold).

Finally, what if you need to make the payment using a different checking account or credit card? Most companies will use one account exclusively to pay bills while others may have multiple checking accounts - even paying some invoices with credit cards to increase their cash flow. If there are multiple bank accounts from which you pay bills you will need to verify the account in the drop-down list titled "Account", and then choose the correct account for the selected payments. When using a credit card to pay the invoice, use the drop-down



**Kristal Hamm,
CPA, Senior Associate,
QuickBooks ProAdvisor**

list under "Method" to select credit card. Once the change has been made to use credit card, then go back to the "Account" drop-down and choose from one of the previously set up credit cards.

As a quick mention, it will also be necessary to select whether to print the checks or to assign numbers for hand-written checks.

For more information, give the KTLLP QuickBooks Team a call today. We would love to help you with the above or any other QuickBooks processing issues.



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RIDE-SHARING: THE NEED TO KNOW

FELICIA MILLER, ASSOCIATE

As many people are aware, ride sharing services like Lyft are now available across the state of South Dakota. It is tempting to want to participate as a driver to make some extra income, but what should you know first before starting your new job?

As a driver for a ride sharing company, the drivers are not employees but instead are independent contractors who are self-employed. This means that at the end of the year they will receive possibly two 1099s from the company.

- 1099-K and tax Summary: This will show the Gross amount earned, and a breakdown of all the items that reduced the Gross amount down to the Net amount collected.
- 1099-MISC: If earnings are more than \$600.00 in non-driving related income, like bonuses, then it will be reported here.

As an independent contractor it is the driver's responsibility to keep up with business expenses and taxes, to include Social Security (6.5%), Medicare (1.45%) and Federal Income Taxes.

At the end of the year, drivers will complete two additional forms with their tax return:

- Schedule C – “Profit or Loss from Business (Sole Proprietorship)”
- Schedule SE – “Self-Employment Tax” (only if net income is greater than \$400)

Some wonder what expenses can be deducted when driving for ride-sharing companies. Some key examples of expenses can be:

- Auto Expenses: (Schedule C – Line 9)

Keep track of these one of two ways:

- 1) Actual expenses – keeping receipts for gas, oil, repairs, insurance, maintenance, and depreciation or
 - 2) Standard IRS mileage Deduction – Standard rate is 58 cents per mile for 2019. (Mileage log recommended)
- Water or snacks for passengers (Schedule C – Line 22)
 - Tolls and Parking Fees (Schedule C – Line 10)
 - Business Cell Phone (Schedule C – Line 25)



*Felicia Miller,
Associate*

- Commissions paid to Ride-sharing company (Schedule C-Line 10)

Driving for ride-sharing companies can be a great way to bring in additional income. The most important part is to keep records! And remember, if anything is used for both work and personal, only the work expenses can be deducted on Schedule C at the end of the year. If you find that it is too much for you to calculate on your own, Ketel Thorstenson will be glad to assist you with your return.



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KT News

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

— NEW HIRES —



Jesse Jangula
*Associate,
Tax Department*



Linda Stepanek
*Associate,
Accounting Services
Department*



Rebecca Hauff
*Associate,
Tax Department*

— INTERNS —

Miranda Davidson
Accounting Services Department

Clayton Fisher
Audit Department

Shane Brooks
Audit Department

Jennifer Coyle
Tax Department

Brittney Graese
Audit Department

Javan Andrews
Tax Department

Chynna Martinez
Tax Department

— NEW PARTNERS NAMED —



Todd Hoese
CPA, Partner



Jess Weaver
CPA, Partner

Todd Hoese, CPA, LLC in Gillette, WY and KTLLP announced a merger that took effect on Nov. 1, 2018. The merger provides clients in Wyoming and South Dakota a wider array of services through more depth of expertise. Todd Hoese has been serving hundreds of individuals and businesses in the Gillette area since 1996. Todd joins the KTLLP partner group, and will continue serving Gillette clients with the current staff. The Gillette office has kept the same location, 305 S. Garner Lake Rd., Ste. A Gillette, WY.

KTLLP announces the addition of a new Partner, Jess Weaver, CPA, effective Jan. 1, 2019. Weaver joined the firm in 2010 and is located in the Spearfish office. He specializes in tax planning and preparation for corporations, partnerships, trusts, estates and individuals with an emphasis in family business, franchising, and multi entity tax structures. Weaver is a 2009 graduate of Black Hills State University with a Bachelor of Science in Professional Accountancy. He is a member of the American Institute of Certified Public Accountants (AICPA), South Dakota CPA Society (SD CPA), and the Spearfish Lions Club. He also serves on various boards in the northern hills, including the Black Hills State University Business School Advisory Board and Spearfish Chamber of Commerce.

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*The partners of
Ketel Thorstenson, LLP*



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