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Newsletter February 2019

Tax Filing Reminders

March 15-

- 2018 calendar-year S corporation income tax returns are due.
- 2018 partnership returns are due.
- Deadline for calendar-year corporations to elect S corporation status for 2019.

Tax Documents To Watch For

Article Highlights:

- Information Reporting
- IRS Matching
- List of Documents

To ensure individuals properly report all of their income, the IRS has an ever-expanding series of information-reporting forms used to advise you and the IRS of your wages, retirement plan income, Social Security benefits, health insurance premium subsidies, stock sales, investment income, etc., for each tax year. The issuers of most of these forms have until January 31 or February 15 depending on the form following the year to which they apply to mail them to you or make them available to you online, so they should arrive in your hands soon thereafter. These forms are not only sent to you but are also provided to the IRS and state taxing agencies, when applicable. The IRS and states use them to verify that you are properly preparing your tax return(s). If you fail to correctly account for the information, you can expect to hear from the IRS or your state tax department in a year or so. Here is a rundown on the most frequently encountered of these documents:

W-2 – A form almost everyone is familiar with. It includes the wages from your employer for the year along with withholdings and other information that is crucial in preparing your return. You should receive a W-2 from each employer you had during the year.

1099-INT – This form is used by the payers of interest income to report the amount of interest you earned from various sources throughout the year. If the interest earned is less than $10, the payer may not issue the form, but the interest must still be included in your interest income.

1099-DIV – This form is used to report dividend income you earned from various sources throughout the year. If a brokerage firm is holding your stock portfolio, it may use a substitute form, which will likely include payments from all of the types of 1099s that it needs to issue.

1099-B – If you sold stocks during the year, you will receive 1099-B showing the gross proceeds of sales from stock transactions. If you have a brokerage account, most brokers

use a substitute form showing the details of all of your sales for the year.

- *Special note about 1099s from brokers: In some cases, a brokerage firm may receive a time extension from the IRS to file its 1099s because it needs information from certain mutual funds to properly complete the 1099s. So if you don't receive your 1099s from your broker shortly after Jan. 31, check with your broker for the anticipated date when the 1099s will be available. If you have an online account, you may be able to download and print the forms, instead of waiting for them to arrive in the postal service mail.*

1099-S – If you sold your home during the year, you may receive a Form 1099-S showing the sales price. You may have received this form when the escrow closed, rather than getting it in the mail after the year's end. In either case, the closing escrow statement is always needed for the sales expenses and prorations.

SSA-1099 – If you received Social Security income during 2018, you will be receiving a Form SSA-1099 (RRB-1099 for railroad retirement) reporting your benefits for the year and the amount of Medicare insurance paid.

1099-R – If you received a pension or other retirement plan benefits, including IRA distributions, you will receive a 1099-R showing the year's total amount and generally also the taxable portion, any tax that was withheld, and other information needed to prepare your tax return.

1098 – If you have a home loan, the lender will provide you with a Form 1098 showing the amount of interest paid on the loan for the year.

1098-E – Form 1098-E shows the amount of student loan interest you paid during the year.

1098-T – If you paid college tuition for yourself, your spouse or a dependent, the education institution will send you this form showing the amount of tuition you paid throughout the year as well as other amounts that could affect the computation of the higher-education tax credits.

1095-A – If you obtained your health insurance through a government marketplace, you will receive a Form 1095-A, which is needed to compute your premium tax credit and reconcile any advance credit that was used to subsidize your premiums. In some cases, you may need to log into your marketplace account and download the form.

1099-C – If a lender forgives all or a portion of a debt, this form includes a variety of information needed to determine what portion of the debt is taxable and the part, if any, that is excludable from income.

1099-MISC – If you were self-employed in 2018, businesses that paid you $600 or more will be issuing you a 1099-MISC. Some businesses may issue a 1099-MISC even if the amount they paid you was less than $600.

1099-K – If your business accepts credit cards, debit cards, PayPal or other third-party payments, you may receive a 1099-K showing those sales for the year, depending on the number and total dollar amount of transactions.

K-1 – If you are a partner in a partnership, a shareholder in an S-corporation or a beneficiary of a trust, you will receive a K-1 from the entity showing your income, loss, deductions, credits or other information from the entity needed to prepare your return.

It is important to understand that the IRS and most states also get a copy of these documents, and if the information on these forms is not reported correctly on your tax return, you will eventually hear from the government. Also, keep in mind that even if you don't receive an income-reporting 1099 that you were expecting, you are still required to report the income that you received from that payer or business on your tax return.

Please give this office a call if you have questions about any of these informational forms or others not included above.

Vacation Home Rentals: How the Income Is Taxed

Article Highlights:

- Home never rented
- Home rented for fewer than 15 days
- Home rented for at least 15 days with minor personal use
- Home rented for at least 15 days with major personal use
- Vacation home sales

If you have a second home in a resort area, or if you have been considering acquiring a second home or vacation home, you may have questions about how rental income is taxed for a part-time vacation-home rental. The applicable rental rules include some interesting twists that you should know about before you begin renting. Although some individuals prefer to never rent out their homes, others find such rentals to be a helpful way of covering the cost of the home. For a home that is rented out part time, one of three rules must be considered, based on the length of the rental:

1. ***Home Rented For Fewer Than 15 Days*** – If a property is rented out for fewer than 15 days in a year, the property is treated as if it were not rented out at all: The rental income is tax-free, and the interest and taxes paid on the home are still deductible. In this situation, however, any directly related rental expenses (such as agent fees, utilities, and cleaning charges) are not deductible. This rule can allow for significant tax-free income, particularly when a home is rented as a filming location.
2. ***Home Rented For At Least 15 Days With Minor Personal Use*** – In this scenario, the home is rented for at least 15 days, and the owners' personal use of the home does not exceed the greater of 15 days or 10% of the rental time. The home's use is then allocated as both a rental home and a second home. For example, if a home is used 5% of the time for personal use, then 5% of the interest and taxes on that home are treated as home interest and taxes; these costs can be deducted as itemized deductions. The other 95% of the interest and taxes, as well as 95% of the insurance, utilities, and allowable depreciation, count as rental expenses (in addition to 100% of the direct rental expenses). The combined expenses for all rental activities are deductible as a tax loss. However, this amount is limited to $25,000 per year for a taxpayer with adjusted gross income of $100,000 or less and is ratably phased out between $100,000 and $150,000. Thus, if a taxpayer's income exceeds $150,000, the rental-expense tax loss cannot be deducted; it is carried forward until the home is sold or until gains from other passive activities can be used to offset the loss.
3. ***Home Rented For At Least 15 Days With Major Personal Use*** – In this scenario, a home is rented for at least 15 days, but the owner's personal use exceeds the greater of 14 days or 10% of the rental time. With such major personal use, no rental-related tax loss is allowed. For example, consider a home that has personal use 20% of the time and is a rental for the remaining 80%. The rental income is first reduced by 80% of the combined taxes and interest. If the owner still makes a profit after deducting the interest and taxes, then direct rental expenses and certain other expenses (such as the rental-prorated portion of the utilities, insurance, and repairs) are deducted, up to the amount of the remaining income. If there is still a profit, the owner can take a deduction for depreciation, but this is also limited to the remaining profit. As a result, no loss is allowed, and any remaining profit is taxable. The interest and taxes from the personal use (20% in this example) are deducted as itemized deductions, which are subject to the normal interest and tax limitations

Vacation Home Sales – A vacation-home rental is considered a personal-use property. Gains from the sales of such properties are taxable, and losses are generally not deductible.

Unlike primary homes, second homes do not qualify for the home-gain exclusion. Any gain from a second home is taxable unless it served as the taxpayer's *primary* residence for two of the five years immediately preceding the sale *and* was not rented during that two-year period. In the latter scenario, the taxpayer does qualify for the home-gain exclusion, provided that he or she has not used that exclusion for another property in the prior two years. As a result, by the home-gain exclusion can offset an amount of gain that exceeds the depreciation previously claimed on the home; this amount is limited to $250,000 for an individual or $500,000 for a married couple filing jointly (if the spouse also qualifies).

There are complicated tax rules related to the home-gain exclusion for homes that are acquired in a tax-deferred exchange or converted from rentals to primary residences. Homeowners may require

careful planning to utilize the home-gain exclusion in such cases.

As an additional note, when a property is rented for short-term stays or when significant personal services (such as maid services) are provided to guests, the taxpayer likely will be considered a business operator rather than just an individual who is renting a home. If so, the reporting requirements will differ from those outlined above.

As with all tax rules, there are certain exceptions to be aware of. Please call this office to discuss your situation in detail.

Thank you for selecting our firm for your tax and accounting needs. We appreciate the confidence you have shown in us, and we remain ready to assist you at any time.

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