Coleman&Associates
Fully Integrated Tax, Accounting & Financial Services

Monthly Newsletter

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March 15: Due date for partnership and S corporation tax returns

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Oh No! Your Tax Refund is Now a Bill

If you are anticipating a nice refund this year, it may be a good idea to prepare yourself for a possible letdown. Many taxpayers will receive a smaller-than-expected refund and might even owe taxes to be paid by April 15. If this happens to you, here are some of the likely reasons:

- **Higher take-home pay.** Look at last year's W-2 and see how much was withheld for federal income tax. Now check this year's W-2. If it is lower, you will need a corresponding reduction in your tax obligation to get the same refund as last year. The good news? You've had more of your income available to you throughout the year. The bad news? Paying less tax each pay period can result in a lower refund or tax due at tax filing time.
- **Withholding tables are not always accurate.** To help employers calculate the tax to withhold from each paycheck, the IRS revised withholding tax tables in February 2018 with a forecast of the impact of new tax legislation. While the IRS did its best to apply the tax law changes to the withholding tables, it did not correctly estimate every individual tax situation. Now, according to the U.S. Government Accountability Office (GAO), as many as 30 million taxpayers may not have had adequate withholdings for 2018.
- **Lower itemized deductions.** If you have similar itemized deductions this year as you did last year, they might not go as far as you think. This is because the state/property tax deduction is limited to $10,000 and many other itemized deductions are no longer available. While standard deductions are now higher, those with unreimbursed employee expenses, or those living in high-tax states could see a negative impact on their tax obligation. These changes coupled with the repeal of the personal exemptions could lead to a surprising change in your tax obligation for 2018 and going forward.
- **Your state takes a different path.** Depending on the degree to which a state incorporates recent federal tax changes, you could see a big tax surprise on your state tax return. As a result, the nonprofit Tax Foundation is anticipating that many taxpayers will experience an increase in state taxes for 2018.
- **Good news for families with kids.** The expansion of the Child Tax Credit will help offset the loss of the personal exemptions and could actually create a nice refund. The credit is now double at $2,000 per child and the income limit is raised to include most taxpayers.

With the uncertainty regarding whether you will receive a refund, hold off on major purchases and plans until your tax return is finalized. If possible, create a cash cushion to lessen the financial burden on you and your family. This is especially true if your withholdings are lower than last year.

7 Common Missing Tax Return Items

Want your tax return filed quickly and without error? Then double-check this list of items that are often overlooked. These missing items often cause delays in getting your tax return filed:

1. Forms W-2 and 1099. Using last year's tax return as a checklist, make sure all your W-2s and 1099s are received and applied to your tax return. Missing items will be caught by the IRS mismatch program. All these forms are required to be in the mail to you on or before Jan. 31. If you are missing a form, contact the company responsible for issuing them.
2. Form 1095-A. If you have health insurance through the Health Insurance Marketplace, you will need this form to complete your taxes and potentially claim the Premium Tax Credit. The deadline for employers to distribute other versions of Form 1095 is March 4.
3. Dependent information. If you add a new dependent in 2018, provide the name, Social Security number and birth date to have them added to your tax return. If you have a dependent that shares time with someone else, discuss the plan for who is going to claim them. Your tax return cannot be filed if there is conflict in this area.
4. Cost/basis information. If you sold any assets (typically investments or real estate), you need to know the cost/basis amount to calculate your taxable capital gain. Check your investment statements to ensure that your broker includes the required information. Often times it's hard to find on the Form 1099-B summary, but it might be listed later in the statement details.
5. Schedule K-1s. As an owner of a partnership or S-corporation, you will need to receive a Form K-1 that reports your share of the profit or loss from the business activity. Because of the new qualified business income deduction (QBID), businesses are required to report more information this year. When you receive your K-1, pay special attention to box 17 (codes V through Z) for S-corporations and box 20 (codes Z through AD) for partnerships. This is where QBID information is included. Without this, you cannot file your tax return.
6. Forms or documents with no explanation. If you receive a tax form, but have no explanation for the form, questions will arise. For instance, if you receive a retirement account distribution form it may be deemed income. If it is part of a qualified rollover, no tax is due. An explanation is required to file your information correctly.
7. Missing signatures. Both you and your spouse need to review and sign the e-file approval forms before the tax return can be filed. The sooner you review and approve your tax return, the sooner it can be filed.

By knowing these commonly missed pieces of information, hopefully your tax filing experience will be a smooth one.

Record Retention Guide

Now is the time of year to review and purge old tax and business records. We've included a guide to help with this project or you can find it on our website anytime at https://colemancpas.com/client-resources/client-forms/.

There are many reasons to keep records. Good records will help you:

- ✓ Monitor the progress of the business
- ✓ Prepare financial statements
- ✓ Identify sources of receipts
- ✓ Keep track of expenses
- ✓ Prepare tax returns
- ✓ Support items reported on tax returns

The guidelines below give retention periods for the most common business records. Call us if you would like more information or assistance with your record retention program.

Accounting Records	Retention Period
Accounts payable	7 years
Accounts receivable	7 years
Audit Reports	Permanent
Charts of accounts	Permanent
Depreciation schedules	Permanent
Expense records	7 years
Financial statements (annual)	
Financial statements (annual)	Permanent
Fixed asset purchases	Permanent
General Ledger	Permanent
Inventory records (1)	7 years
Loan payment schedules	7 years
Purchase orders (1 copy)	7 years
Sales records	7 years
Tax returns	Permanent

Corporate Records	Retention Period
Board minutes	Permanent
Bylaws	Permanent
Business licenses	Permanent
Contracts – major	Permanent
Contracts - minor	Life + 4 years
Insurance policies (3)	Life + 3 years
Leases/mortgages	Permanent
Patents/trademarks	Permanent
Shareholder records	Permanent
Stock registers	Permanent
Stock transactions	Permanent

Real Property Records	Retention Period
Construction records	Permanent
Leasehold improvements	Permanent
Lease payment records	Life + 4 years
Real estate purchases	Permanent

Bank Records	Retention Period
Bank reconciliations	2 years
Bank statements	7 years
Cancelled checks	7 years
Electronic payment records	7 years

Employee Records	Retention Period
Benefit plans	Permanent
Employee files (ex-employees)	7 years
Employment applications	3 years
Employment taxes	7 years
Payroll records	7 years
Pension/profit sharing plans	Permanent

(1) Permanent for LIFO system

(2) Or statute of limitations for employee lawsuits

3) Check with your agent, liability for prior years can vary

Electronic Records

The Internal Revenue Service provides guidance to taxpayers that maintain books and records by using an electronic storage system that either images their hardcopy (paper) books and records, or transfers their computerized books and records to an electronic storage media, such as an optical disk. This guidance is detailed in IRS Revenue Procedure 97-22.

The provisions require that any taxpayer subject to income tax, except for wage-earners and farmers, must keep such books and records as are sufficient to substantiate amounts required to be shown in tax or information returns. These books and records must be kept available at all times for inspection by the IRS, and must be retained for as long as they "may become material in the administration of any internal revenue law" (generally, 3 years, or unlimited if fraud is suspected).

An electronic storage system is defined as a system to prepare, record, transfer, index, store, preserve, retrieve, and reproduce books and records by either:

1. Electronically imaging hardcopy documents to an electronic storage media (such as by scanning), or
2. Transferring computerized books and records to a disk, which allows books and records to be viewed or reproduced without the use of the original program.

General Requirements

1. An electronic storage system must ensure an accurate and complete transfer of the hardcopy or computerized books and records to an electronic storage media.
2. An electronic storage system must include:
   a. reasonable controls to ensure the integrity, accuracy, and reliability of the system;
   b. reasonable controls to prevent and detect the unauthorized alteration or deterioration of electronically stored books and records;
   c. an inspection and quality assurance program, including regular evaluations of the system;
   d. a retrieval system that includes an indexing system; and
   e. the ability to reproduce legible hardcopies or displays on a video display terminal.
3. The information maintained in the system must provide support for the taxpayer's books and records.
4. For each electronic storage system used, the taxpayer must maintain and make available to the IRS complete descriptions of all procedures relating to its use and the indexing system.
5. The indexing system must permit the identification and retrieval for viewing or reproducing of relevant books and records maintained in the electronic storage system.
6. At the time of an examination, the taxpayer must retrieve and reproduce electronically stored books and records and provide the IRS with the resources necessary to locate, retrieve, read, and reproduce any electronically stored books and records

For more details or a copy of IRS Revenue Procedure 97-22, please contact our office.

As always, contact the office with questions by emailing us at info@colemancpas.com or calling 773-444-3100. We are here to help.