Freddi & Associates Inc.
CERTIFIED PUBLIC ACCOUNTANTS

Newsletter

FEBRUARY 2018

Freddi & Associates Inc. would like to 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. Also, thank you for recommending us to your family, friends, and associates. We truly appreciate your referrals.

Tax filing Reminders

February 28 – Payers must file most other Forms 1099 (except certain Forms 1099-MISC due Jan. 31) with the IRS. (April 2 if filing electronically.)

March 1 – Farmers and fishermen who did not make 2017 estimated tax payments must file 2017 tax returns and pay taxes in full.

March 2 – Automatic extension deadline for employers and health care providers to provide Forms 1095 -B and 1095-C to individuals.

March 15 –

- 2017 calendar-year S corporation income tax returns are due.
- 2017 partnership returns are due.
- Deadline for calendar-year corporations to elect S corporation status for 2018.

New 2018 capital expense rules

There are many provisions in the tax reform bill passed in late 2017 designed to benefit small business owners. There are also a variety of new tax tools affecting how small businesses account for deducting the cost of capital purchases under the new tax law. Here's what you need to know:

Tool #1: Section 179 deduction
The new law increases the amount of business property purchases that you can expense each year under Section 179 to $1 million (from $500,000 previously). Normally, spending on business property (machines, computers, vehicles, software, office equipment, etc.) is capitalized and depreciated so that the tax benefit is spread out slowly over several years. Section 179 allows you to get the tax break immediately in the year the property is placed into service.

~ Continued on Page 2 ~

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New 2018 capital expense rules (Cont'd)

Tips:

- *There is an eligibility phaseout for Section 179 that ensures it's only used by small businesses, but that was also raised to $2.5 million (from $2 million) by the new law. If you spend more than $2.5 million on business property in total during the year, your ability to use the $1 million Section 179 deduction is reduced dollar-for-dollar above that amount.*
- *Section 179 deductions can be used on both new and used equipment.*
- *You can now use Section 179 on property used to furnish lodging or in connection with furnishing lodging (such as rental real estate). It also includes improvements to nonresidential real estate assets such as roofs, heating and air conditioning, and alarm systems.*

Tool #2: Bonus depreciation
Bonus depreciation limits (also known as first-year bonus depreciation) are also improved under the new law, but for a limited time. Bonus depreciation is similar to Section 179 and allows you to immediately expense capital purchases rather than depreciating them over several years.

Under the new law, first-year bonus depreciation increases to 100 percent of the qualified asset purchase price for the next five tax years (starting in 2018) and can now be applied to the expense of purchasing used property as well as new.

Tips:

- *Bonus depreciation is typically used on short-lived capital investments (with a 20-year or less useful life) such as machinery, equipment and software.*
- *Bonus depreciation had been only for purchases of new equipment, but can now be applied to used equipment as long as you place it into service at your business during the tax year.*
- *The allowable bonus depreciation starts to decline after 2022. It falls to 80 percent in 2023, 60 percent in 2024, 40 percent in 2025 and 20 percent in 2026.*

Remember, though tax reform gives you expanded tools to accelerate depreciation, it may not benefit you to use them in every case. Sometimes it's better to use the standard capitalization and depreciation tax treatment. These tax benefits do not change the amount a capital purchase can be expensed – only the timing. Calculating whether your business will benefit from these revamped expensing tools can get complicated, so give us a call if you need assistance.

~ Continued on Page 3~

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Tips for when your employees are family members

Working with family can be a pleasure. It can also be a pain, especially if you have to terminate a family member's employment. Here are tips to help you ease the strain of mixing your family and employee relationships.

Hire for the right reasons. Make your hiring and firing decisions based on the skill sets needed to keep your business operating effectively. Hiring your son because he's struggling to find a job is *not* a good business reason for bringing staff on board.

Set clear expectations. Communicate the job's performance requirements to your family member right from the start. Clearly define company policies for promotion, compensation and termination. Make it plain that unethical conduct will not be tolerated.

Avoid nepotism. Nepotism is our human habit of treating family members more favorably than others. Keep in mind that your non-family employees will be hypersensitive to any favoritism you show to relatives.

Document performance. Throughout your family member's tenure, maintain a detailed personnel file that tracks behavior resulting in disciplinary actions. In the unfortunate case of a necessary firing, a well-documented file will provide a narrative record that lays out your reasons and clearly communicates the evidence leading to your decision.

If you have to fire, keep it professional. Set a formal termination meeting. You may want to involve a direct supervisor or a human resources professional to ensure that your company is appropriately represented and to prevent the conversation from lapsing into emotional arguments.

The bottom line: Adhere to formal business standards and communicate in a professional, businesslike manner with your related employees.

Taxes and virtual currencies: What you need to know

Virtual currencies are all the rage lately. Here are some tax consequences you must know if you decide to dip your toe into that world.

The IRS is paying close attention

The first thing to know is that the IRS is scrutinizing virtual currency transactions, so if you live in the U.S. you'll have to report your transactions in Bitcoins and the like to the IRS. Despite some early misconceptions, virtual currency transactions can be traced back to their owners by governments and other cyber sleuths.

~ Continued on Page 4~

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Taxes and virtual currencies: What you need to know (Cont'd)

If you decide to use or hold virtual currencies, carefully report and pay tax on your transactions. Act as if you are going to be audited, because if you don't, you just might be!

It's property, not money
Note that the IRS doesn't consider Bitcoin or other virtual currencies as money, because they aren't legal tender. Instead, they are considered property. That means that if you are paid in Bitcoin, you will have to report it as income based on its fair market value on the date you received it.

And, if you sell Bitcoin, you have to pay tax on your gain using the cost (basis) of when you received it. The IRS has said that if Bitcoin is held as a capital asset, like a stock or a bond, then you would pay capital gains tax. Otherwise, if it is not held as a capital asset (for example if it is treated as inventory that you intend to sell to customers), it would be taxed as ordinary income.

Be aware of the risk
In addition to the increased oversight by the IRS, virtual currencies are at risk of virtual theft with no recourse to a government agency like the Federal Deposit Insurance Corporation, which insures U.S. bank balances. Do your research on storage and security before you invest. And if you need help with any tax questions related to virtual currency, don't hesitate to call.

This newsletter provides business, financial, and tax information to clients and friends of our firm. This general information should not be acted upon without first determining its application to your specific situation. For further details on any article, please contact us.

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