

income tax update

FALL
2019

Clients and Friends,

Greetings and happy fall... although we seemed to have missed fall this year and went straight to winter!

We now have one year of tax reform under our belt. Passed in 2017, the Tax Cut and Jobs Act (TCJA) is the largest tax bill in US history since 1986. Most of the law changes took place in 2018. Others will come into effect this year. We have numerous changes again this year, most notably with Minnesota.

Be sure to watch your mailbox. Your tax appointment information will be sent out the first week of January. This will include your tax organizer. Please complete this as it helps to summarize your tax information. It also contains many of the items that are deductible. All of our organizers will be on our website as well.

As always, if you have any questions, please contact us. We hope you have a great winter season, Merry Christmas, and look forward to seeing you this tax season.

Jason Anakkala Ltd.

Minnesota Law Changes and Federal Conformity

One of the biggest challenges last year with the new law was Minnesota not following it. This led to having to do tax returns twice—once for Federal and once for Minnesota. This past May, Minnesota passed a tax bill that now follows the Federal law. There are still some differences such as equipment write off. But, for the most part, it does line up. Most notably, some Minnesota tax provisions signed into law are retroactive, affecting 2017 and 2018 returns.

Most taxpayers will not be impacted by the retroactive changes in Minnesota's new tax law. However, some 2017 and 2018 Minnesota tax returns will need to be adjusted to reflect these recent law changes. The Minnesota Department of Revenue announced they will make the necessary adjustments to 2017 and 2018 returns that require changes resulting from conformity. You do not need to file an amended tax return at this time. However, if you get a change notice, please let us know about it. We will make sure it is correct and can explain the changes to you.

W-4 is Changing for 2020

If you start a new job in 2020, the W-4 you'll fill out will look a lot different from any one you completed for previous jobs. The IRS is working on a new W-4 form for next year that eliminates withholding allowances.

The redesign is supposed to make the form simpler to complete and easier for workers to accurately tell employers how much federal income tax to withhold from their paychecks. Eliminating allowances aligns with the suspension of personal exemptions, which was one of the major changes stemming from the 2017 Tax Cuts and Jobs Act.

Starting in 2020, workers completing a W-4 will need to use the updated form whether it's for a new job, to account for a life change (such as marriage or having a baby), or simply to adjust their withholding amount. You will not be required to complete a new W-4 if you already have one on file with your current employer.

We recommend that you look at your withholding in 2020 to make sure it accurately reflects your tax situation. The IRS has launched an updated Tax Withholding Estimator on its website or give us a call.

on the flip side

- How Can I Save on Taxes?
- Life Advice

How Can I Save on Taxes?

We get this question a lot. Here are some top ways to lower your tax bill. Limitations do apply on many of these, so please talk to us first.

Businesses

- **Purchase or prepay business expenses**—Ordinary and necessary expenses for your business are a great deduction and normally 100% deductible. These include supplies, computer expenses, utilities, insurance, etc. These are the day to day expenses needed to run your business. For a list of common expenses, see our Sole Proprietor or Farm deduction finder.
- **Purchase Equipment purchases**—Similar to business expenses, equipment needed for your business is 100% deductible for Federal. Minnesota has a 20% limitation on equipment with the remaining 80% deducted over the next five years. Included in this category are business vehicles, but limits do apply.
- **Set up and Contribute to a Business Retirement Plan**—Setting up a SIMPLE IRA, SEP IRA, or 401K plan for your business is a great tax deduction. Contributions for the owner or employee are 100% deductible. As a bonus, the money stays with the owner or employee and generally appreciates in value.

Individuals

- **Contribute to your retirement plan**—If you have 401K plans, SIMPLE Plans, Traditional IRA's, and some others, these are all deductible when you contribute to them. This is one of the biggest ways (if not number one) to save on taxes. Plus, the best part is that you still have the money. By the way, experts recommend 15% of your pay should be saved for retirement.
- **Contribute to Health Savings Accounts**—HSA's are like a triple deduction. They are 100% deductible when you contribute to them. They earn interest or dividends that are tax free. And, they are not taxable when you draw them out for qualified medical expenses. Because these accounts are a savings account, you do not lose them even if they are not used by the end of the year. Remember, you must have "HSA Qualified" health insurance to be able to contribute to these accounts.
- **Participate in Employer Benefit Plans**—These plans offered by your Employer are great plans that offer a tax deduction. The most common plan is a Flexible Spending Account (also known as FSA, 125, or cafeteria plan). These plans are 100% tax deductible. They also have a hidden deduction. Contributions are subtracted from your paycheck before payroll taxes are calculated. So, not only do you avoid income tax, you also avoid payroll tax on these contributions.

The quick write off on equipment is

\$1,000,000

MINNESOTA ALLOWS UP TO 20%

2019
mileage
rate
58¢

Health Savings Account Limits

\$3,500

single plan

\$7,000

family plan

Jason Anakkala Ltd.

63 First Ave NE
Little Falls, MN 56345

320-632-2938

13432 Elmwood Drive,
Suite 8

Baxter, MN 56425

218-824-1860

The gift tax exclusion is \$15,000

LIFE ADVICE



Have a 10 year plan



Aim for being debt free at 65



Meet your commitments

This is from a speech given to college grads by a tax law teacher that we go to for training. For more details on how to be financially secure, give us a call!

WWW.JASONACPA.COM