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To the CAWA Membership – Happy 2018!

Once again it's a new year! 2017 is already behind us. Each year will have its challenges and its opportunities for the economy and the business community. 2018 is no exception as tax laws have changed and business models continue to change. Our staff is always looking for the most profitable business model and operational sweet spot for each client. This focus will provide the best sales model that will produce the most profitability and positive cash flow. So with the Holidays behind us and an improving economy let's work together and make 2018 another great year!

2018 brings in massive new tax legislation with most changes **not** effecting 2017 tax returns. As we like to keep our clients informed of the most important government changes that apply, the following is a list of some of the changes effective January 1, 2018 that will affect your business.

1. The social security (FICA) wage base will increase to **\$128,400**. The tax rate for employers and employees will remain at **6.2%** in 2018.
2. The employer's share of Medicare tax (MC) stays the same @ **1.45%** for all wages paid. The employee's share is **1.45%**, however there is also a **0.9%** Medicare surtax on singles with wages exceeding **\$200,000** and couples earning over **\$250,000**. The surtax doesn't affect the employer's share.
3. The **3.8%** surtax on **investment income** for individuals making more than \$200,000 and couples making more than \$250,000 stays in effect. Not included in investment income are tax exempt bonds and retirement plan payouts.
4. The rate for SDI increases to **1.00%** on wages paid to **\$114,967**.
5. The California SUI and Federal FUTA taxable wage limit will remain at **\$7,000**.
6. California will pay higher **FUTA** taxes on 940 forms due January 31, 2018 at the rate of up to **\$147.00** per employee for wages paid in 2017. This is due to California being behind in repaid loans from the federal unemployment fund.
7. Employees are **not** required to file a new **W-4** this year. Employers can use **W-4s** already on file. There was a revised version of Form **I-9** for new employees hired in 2017. Go to www.irs.gov and download new forms.
8. The statewide sales tax rate is **7.25%** however; local jurisdictions have added district taxes. For the correct rate in your area you may look up the rate by address at (<https://maps.gis.ca.gov/boe/TaxRates/>) or call 1-800-400-7115 (TTY: 711)

9. In 2017 businesses of any size have been able to immediately expense the cost of **new** equipment, machinery and leasehold improvements by claiming 50% bonus depreciation. In **2018** both **new and used** assets with useful lives of **20 years** or less qualify. For **2018** it phases down to **40%**, in **2019** to **30%**, **2020 no bonus**. Also for 2018 **Section 179 expensing** has expanded to **\$1 million** and the phase-out thresholds to **\$2.5 million**.
10. First year depreciation for **used** passenger autos and trucks placed in service in 2017 is \$3,160 for autos and \$3,560 for trucks less than 6,000 lbs. Bonus depreciation for **new** has been \$11,160 and \$11,560. This is expected to increase in 2018. Significant write-off for heavy SUV's and big pickups used 100% for business was extended. Up to \$25,000 cost can be expensed under section 179 depreciation, plus 40% bonus depreciation, and normal first year depreciation!
11. Business mileage rate will increase to **54.5 cents** per mile in 2018. Remember to substantiate all business miles. Parking and tolls are **also** deductible when using standard rate.
12. Daily overtime rules returned to California effective January 1, 2000 and remain.
13. Effective January 1, 2018 California minimum wage increases to **\$11.00** an hour for companies who employ 26 or more employees. Companies who employ fewer than 26 employees must pay at least **\$10.50** per hour.
14. Point of Sale display requirements went into effect January 1, 2007. Requires that all price reductions, surcharges, taxes, and the total amount for each transaction be displayed for the consumer before the consumer pays for goods or services.
15. Qualified retirement plan limits for 2018 are: SIMPLEs ...**\$12,500** and 401(k)...**\$18,500** and SEP plans...**\$18,500**. 50 or older (catch-up) **\$6,000** for 401k and SEP plans, **\$3,000** for SIMPLE plans.
16. HSA maximum contribution limits for 2018: **\$3,450** for those with individual high-deductible health plan coverage and **\$6,900** for those with family high-deductible health plan coverage. HSA catch-up contributions age 55+: **\$1,000**.
17. The estate tax exemption (from federal estate taxes) for 2018 to heirs increases to **\$11.2 million** for an individual or a combined **\$22.4 million** for a married couple. The top estate tax rate **remains at 40%**. The annual gift tax exclusion increases to **\$15,000** per recipient.
18. Tax rates on long term capital gains and qualified dividends do not change. The tax rate for long term capital gains and dividends is at **20%** for high incomers...singles with taxable income above \$425,800 and couples over \$479,000. The 3.8% Medicare surtax stays and boosts the top rate to 23.8%. For filers with incomes below \$38,600 single and \$77,200 for joint filers the rate is **0%**. The **15%** rate applies to incomes for single filers with incomes between \$38,600 and \$425,800. Joint filers between \$77,200 and \$479,000.
19. An expensing safe harbor in IRS's tangible property rules is \$2,500 for small purchases and improvements that are otherwise required to be capitalized.

20. **The new tax law dramatically reforms the taxation of businesses of all sizes.** C corporations will pay a flat **21% rate**, down from the top 35% effective rate now. Also the corporate AMT rate has been eliminated. Many individual owners of pass-through businesses – S corporations, sole proprietorships, partnerships, and LLCs will get a new **20%** deduction on qualified business income. There are limits on high earners in professional service fields with taxable incomes in excess of \$315,000 for joint filers and \$157,500 for all other taxpayers. This pass-through income law is one of the most complex provisions in the new law with lots of special rules.
21. Under the new law many business deductions are eliminated or capped. Among them: Business entertainment, amusement or recreation, along with country club dues is eliminated. An employee meal on employers' premises is a 50% deduction.

This is a summary of just some of the changes in the massive new tax legislation that we feel are important to the membership. We will continue to keep you informed of further important changes as they occur and become more applicable.

Also any questions please contact us at wymanlittleinc@gmail.com or call us at 951.734.5558. We are available as your CAWA endorsed vendor for accounting, consulting and income tax services.

Let Us Bring Your Financial Statements To Life!