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JAROS DOMEN AND ASSOCIATES, LLC - CPA FIRM

CLIENTUPDATE

WINTER 2019

Everyday Advice

It takes as much energy to wish as it does to plan.

– Eleanor Roosevelt

Another year, another new Form 1040

In 2018, the government attempted to "simplify" the tax-filing process by drastically shortening Form 1040. The result was six new schedules that created a lot of confusion. Now the IRS is attempting to ease some of that pain by revising the form and removing some schedules. Will it help? Here is what you need to know:

- **More information on the main form**
  To make it easier for the IRS to match pertinent information across related tax returns, new fields have been added on the main Form 1040. For example, there's now a spot for your spouse's name if you choose the married filing separate status. In addition, there's a separate line for IRA distributions to more clearly differentiate retirement income.
- **3 schedules are gone**
  Last year's six new schedules are now consolidated into three schedules. Schedules 4, 5 and 6 are gone. While these schedules no longer exist, their information can be found on the updated schedules. Less paperwork, but still the same amount of information.
- **Rounding required**
  For the first time, the IRS is eliminating the decimal spaces for all fields. While reporting round numbers has been common practice, it's now required.
- **Additional changes on the way**
  The current versions of Form 1040 and Schedules 1, 2 and 3 are in draft form and awaiting comments on the changes. Because of the importance of the 1040, the IRS is expecting to make at least a few updates in the coming weeks (or months) before they consider it final.

How to prepare for the changes

The best way to prepare is to be aware that 1040 changes are coming. The information required to file your taxes will remain the same, but some additional hunting will be necessary to find the shifting lines and fields on the modified form.

Remember, changes bring uncertainty and potential for delays, so getting your tax documents organized as early as possible will be key for a timely tax-filing process. ♦

Dear Clients & Friends,

In this issue you'll find an article about Form 1040 changes you'll see this tax season, as well as a list of year-end ideas to save money and minimize your tax bill. There's also an article that focuses on why you should pay attention to the fine print on legal agreements. In addition, you'll find useful advice on how to respond to negative reviews. And for your convenience, we've included a handy tax calendar and some IRS updates.

Remember, there are a lot of ways to save money hidden in the tax code. But to take advantage of most of them, you need to plan ahead. Please feel free to call us with any questions or to schedule an appointment.

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IRSUPDATE

Retirees: Tax withholding estimator enhancements

The IRS website now offers a Tax Withholding Estimator tool (*www.irs.gov/individuals/tax-withholding-estimator*) designed to help retirees and their spouses quickly determine the right amount of tax to be taken out of their pension or Social Security checks. It calculates the taxable portion and incorporates it into an overall estimate of their projected tax liability and related withholding for the year. You can choose a tax due of close to zero or a refund amount if a withholding change is needed.

Checking your withholding can help you avoid having too little tax withheld and facing an unexpected tax bill or it can allow you to adjust your withholding to receive more in your paychecks throughout the year.

IRS impersonation scam on the rise

IRS imposters are sending fake "reminder" emails to taxpayers claiming to be about tax accounts, refunds and electronic returns. The emails contain malicious files that are labeled as "temporary password" or "one-time password" in order to trick people into clicking them and infecting their computers with malware that is used to steal passwords and other sensitive information.

Remember, the IRS won't initiate contact with you by email, text messages or on social media about personal or financial information. If you get unsolicited email from what appears to be the IRS or an organization related to the IRS (like the Electronic Federal Tax Payment System), report it by sending it to *phishing@irs.gov*.

Fourth-quarter interest rates stay the same

The fourth-quarter interest rates are the same as third quarter. Overpayments are 5 percent for individuals and 4 percent for corporations. Corporate overpayments exceeding $10,000 have a 2.5-percent interest rate. The rate charged on underpayments is 5 percent. And large corporate underpayments are charged 7 percent. ♦

6 Tips to improve your credit score

Your credit score is more important than ever. Once viewed as a necessity when applying for a mortgage, it now factors into renting an apartment, paying for utilities, buying a cell phone, and determining the amount you pay for home and auto insurance! Here are tips to help you improve and maintain a good credit score:

1 Know which bills must be paid on time. One bill that goes more than 30 days past its due date can drop your credit score 40 points and can stay on your credit report for seven years! If you are in a cash pinch and can't pay all your bills on time, prioritize mortgage, car loan and credit card bills that report late payments to credit agencies. Utilities and medical organizations generally don't report a delinquency until your account is sent to a collection agency.

2 Watch revolving credit balances. Each credit card has a credit ceiling. This credit limit is compared to how much of it you use. The higher amount of the credit limit you use, the lower your credit score. Even if you pay the bill in full each month! Ideally, try to keep the spending balance less than 20 percent of your credit limit. If your routine spending is higher than this, consider requesting a higher line of credit, but do not use it. The sole purpose of this request is to create a higher credit score.

3 Pay off debt. Current debt balances account for as much as 30 percent of your credit score. When you consider this and the high interest rates that come with debt, it's important to get those balances to zero as soon as possible. Your debt-to-income ratio (total debt divided by your total income) doesn't directly affect your credit score, but it's a key metric used by underwriters when determining loan eligibility and interest rates.

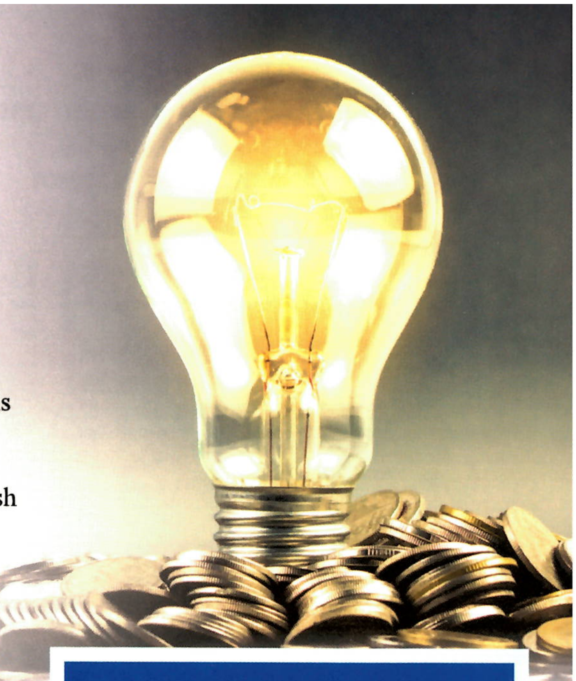
4 Add new debt only when necessary. Adding new debt can reduce your credit score in a few different ways: your debt profile increases, your debt-to-income ratio rises, and even the credit inquiry itself can take a chunk out of your score. If you have a relatively short credit history, too many credit inquiries will affect you even more.

5 Consider keeping dormant credit cards open. Have an open credit card that you've paid off or have never used? Your instinct might tell you to close the account, but keeping it open may actually help your credit score. An active credit card in good standing for a long period of time helps your credit score. Plus, the additional unused credit limit on your books lowers the ratio of spending to total credit limit and improves your score.

6 Actively monitor your credit reports. You can get a free credit report from each reporting agency every 12 months on the Annual Credit Report website. These reports tell you everything you need to know about items impacting your credit score. Reviewing these items on a routine basis is an important exercise to ensure a correct report. If you find a mistake, you can work to get it removed and improve your score.

Your credit score is too important to ignore. Taking an active role by implementing some of these smart tactics is a great way to improve your score and overall credit health. ♦

Save money with these year-end ideas



There's still time to reduce your potential tax obligation and save money this year (and next). Here are some ideas to consider:

- **Estimate your 2019 and 2020 taxable income.** With these estimates you can determine which year receives the greatest benefit from a reduction in income. By understanding what the tax rate will be for your next dollar earned, you can understand the tax benefit of reducing income this year AND next year.

- **Fund tax-deferred retirement accounts.** An easy way to reduce your taxable income is to fully fund retirement accounts that have tax-deferred status. The most common accounts are 401(k)s, 403(b)s and various IRAs (traditional, SEP and SIMPLE).

- **Take your required minimum distributions (RMDs).** If you are 70½ or older, you need to take required RMDs from your retirement accounts by Dec. 31. Don't forget to make all RMDs because the fines are hefty if you don't — 50 percent of the amount you should have withdrawn.

  Keep in mind, even if you don't have RMDs yet, removing a planned amount from your retirement accounts each year may be more tax efficient than waiting until you are required to do so.

- **Manage your gains and losses.** Rebalance your investment portfolio, and take any final investment gains and losses. When you have more losses than gains, up to $3,000 can be used to reduce your ordinary income. With careful planning, you can take advantage of this loss amount each year.

- **Finalize your gift-giving strategy.** Each year you may gift up to $15,000 without tax reporting consequences to as many individuals as you choose. Consider any gifts you wish to give up to the annual limit. This could include gifts of cash or property, including investments.

- **Donate to charities.** Consider making end-of-year donations to eligible charities. Donations of property in good or better condition and your charitable mileage are also deductible. Receiving proper documentation that acknowledges your contributions is important to ensure you obtain the full deduction. Have a plan by knowing your total deductions for the year to help you decide how much and when to donate. Pulling some donations planned for 2020 into 2019 may be a good strategy.

- **Review your automated billing transactions.** This is a good time to identify what automatic monthly expenses should be reviewed for reduction or elimination. You may also discover billing for services you thought were canceled. This specific review often catches errors that a simple account reconciliation may be missing.

- **Organize records now.** Start collecting and organizing your tax records to avoid the scramble come tax season.

- **Develop your own list.** Use these ideas as a jumping off point to create your own list of annual review items. It might also include reviewing college savings accounts, beneficiaries, insurance needs, wills and going through an aging parent's financial accounts.

Questions about the most effective money-saving moves for your situation? Call today. ♦

Your Tax Calendar

Jan. 15, 2020

☐ Due date for the fourth installment of 2019 individual estimated tax.

Jan. 31

☐ Due date for employers to provide W-2 statements to employees, and also file Forms W-2 with the Social Security Administration.

☐ Due date for payers to provide most Forms 1099 to recipients and report Forms 1099-MISC with non-employee compensation in Box 7 to the IRS.

☐ Due date for providers to send Forms 1095 to recipients.

☐ Employers must file 2019 federal unemployment tax returns and pay any tax due.

☐ Due date to file 2019 fourth quarter Form 941 for Social Security, Medicare and withheld income tax.

Feb. 28

☐ Payers must file most Forms 1099s (except certain Forms 1099-MISC due Jan. 31) with the IRS.**

☐ Due date to file Forms 1095 with the IRS.**

March 2

☐ Farmers and fishermen who did not make 2019 estimated tax payments must file 2019 tax returns and pay taxes in full to avoid a penalty.

**March 31 if filing electronically

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CLIENTUPDATE
Practical Tax and Financial Advice

How to handle negative reviews

With all the rating services on sites like Amazon and Yelp, it's not a question of whether your business will receive a negative review, only when. Every business or service must know how to handle these negative reviews. Here are some hints:

FIRST fix the problem

When you get a negative review, try to identify the customer and contact them directly. If a solution is not possible, be willing to cancel their service or refund their money. A disgruntled customer that hasn't been hurt financially quickly becomes a toothless monster. Once this is done, try to have the customer remove their review if they are satisfied. OR even better, try to get them to rave about how you solved their problem!

Know your dissatisfied reviewer

Conduct research on the customer. Are they habitual complainers or bullies? The current public feedback forums have created many of these types. On the other hand, people easily get frustrated with poor service and may not know where to turn. It's important to know the difference.

Problems are opportunities

Inside every negative review is an opportunity to be better at what you do. Even with the review bullies, there is an element of truth to most reviews. Try to get past the emotional impact of the negative review and think of it as a gift to make your service better than everyone else's.

Writing the response: FREE advertising

You've fixed the problem. You've researched the customer. You've looked for opportunities to be better at what you do. Now you are ready to publicly respond to the negative review. But you're not responding to the complainer. You're responding to future readers of the complaint! The formula of a great response is:

- Acknowledge the customer's feelings.
- Restate the problem.
- Tell EVERYONE how you solved the problem.
- Encourage the customer to contact you directly in the future so you can handle their issue more effectively than through a public forum.
- Tone is critical. The reviewer will likely be angry and frustrated. Your tone must sound reasonable with a rational approach. When contrasting the two styles, readers will automatically see your business in a positive light, even when you make a mistake.
- **DO NOT:** Act defensive, over-apologize, talk down to the customer, make the customer appear stupid, or get into a back and forth discussion.

Time is of the essence

Try to complete your contact and response within 24 hours. This speed will impress all future readers. A lot must be done to reach this goal, but if you assign someone to monitor review services for you, and they are empowered to solve problems, you can accomplish this goal.

Today's review systems give entirely too much power to a few complainers. Your goal should be to use these systems to your advantage to build your brand and find new buyers. ♦