



COUTO DEFRANCO, P.A.  
CERTIFIED PUBLIC ACCOUNTANTS & ADVISORS

# Online Advisor

- FEBRUARY 2018 -

## MAJOR UPCOMING TAX DEADLINES

### 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 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.

### *Greetings!*

*Tax time is here! At this point, you probably have received most of your tax documents. It's a great feeling to get your taxes done early, so drop off or send in your information today! If you would like to meet to discuss financial services, please call our office to schedule an appointment.*

Now is the time of year when friends and family may be asking who you use to prepare your taxes. Refer friends and family that could benefit from our services and receive a special discount on your 2017 tax preparation fee.

*Forward this email to friends and family; it entitles them to a complimentary consultation.*

*The partners and staff of Couto DeFranco, P.A.*

**TAX GUIDE ONLINE** 2017-2018 Tax Planning Guide

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**REDUCE YOUR PROPERTY TAXES**



## 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 in 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.

In fact, the IRS just won a case late in 2017 against the prominent virtual currency storage company Coinbase, allowing the agency to access records of more than 14,000 customers and assess back taxes on those who haven't

properly reported their transactions

With the passage of the Tax Cuts and Jobs Act, deductions of state, local and property taxes are not worth as much as they used to be. Beginning in 2018, taxpayers are limited to a total of \$10,000 in combined state income, sales and property taxes as an itemized deduction.

One way you can try to adapt is by lowering your property tax bill. Believe it or not: There is a way.



### Why you may need a property tax reassessment

Property taxes are the revenue lifeblood of cities, counties, school districts and states, and they fluctuate along with house prices. Because local governments are eager to collect more tax revenue, they are quick to get property values assessed higher when times are good. But they aren't as quick to get values lowered again when the economy falters. As a result, over time your property value tends to creep up without downward corrections. When added to increased property tax rates, your bill today can be much higher than in the past.

### What you can do about it

If you dread the annual letter informing you that your property tax is going to go up again, one thing you can try is to approach your local assessor and ask for a property revaluation. Here are some ideas to successfully reduce your home's appraised value:

- **Understand the process and due dates.** Do some homework to understand the approved process to get your property revalued. It is typically outlined on your property tax statement. Understand the deadlines and adhere to them.
- **Assess your property.** Do some homework *before* you call your assessor. Talk to neighbors and honestly assess the amount of disrepair your property may be in versus other comparable properties in your neighborhood.
- **Call a few real estate professionals.** Tell them you would like a market review of your property. Try to choose a professional that will not overstate the value of your home hoping to get a listing, but will show you comparable sales for your area.
- **Check the classification.** Look at your property classification in the detailed description of your home. Oftentimes errors in this code can overstate the value of your home. For instance, if you live in a condo that was converted from an apartment, the property value could still be based on a non-owner occupied rental basis.

- **Understand first, then clarify your position.** Armed with the

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.

*Example: Craig Crypto bought a single Bitcoin on Dec. 29, 2016 for \$967. After holding it as an investment (capital asset) for a year, Craig sold his Bitcoin for \$14,492. He*

*reports and pays 15 percent tax as a capital gain on his*

- **Understand first, then clarify your position.** Armed with the information you've collected, approach the assessor seeking first to understand the basis of their appraisal. Then position your request for a review based on the facts. Do not fall into the trap of defending your review request without first having all the information on your property.
- **Estimate a reasonable value.** Suggest a reasonable valuation to the assessor. Assessors are so used to irrational arguments, that they may readily accept a reasonable approach.
- **Get an appraisal, if necessary.** If all else fails and you still believe your home is overvalued, consider spending the money for an independent appraisal. This option could be expensive, but can provide a fairly decent defense of your position. You should be able to recoup the cost of the appraisal with many years of lower property taxes.

While going through this process, remember to be aware of the pressure that these local tax authorities are under to raise revenue. This understanding can help temper your position and hopefully put you in a better position to have your case heard.

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## YOUR NEW LIFE AS A PASS-THROUGH ENTITY OWNER

If you are a small business owner, your planning probably got a lot trickier after the passage of the Tax Cuts and Jobs Act (TCJA). That's because most small businesses have legal structures that are treated as pass-through entities for tax purposes, meaning they "pass-through" their income to be taxed by their owners or investors on their Form 1040 individual tax returns. These entities include S corporations, partnerships and sole proprietorships.



On one hand, these kinds of businesses will benefit from the TCJA's 20 percent reduction to the taxation of business income. On the other, the rules used to determine how much of that reduction each business gets are complex. Here are some tips to help find out where your business falls in the new structure:

### 1. Know your businesses' QBI

profit of \$13,525.

### 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.

### KEEP A COOL INVESTING HEAD

These are heady times for investors in the U.S. stock market, who just finished 2017 with an 18 percent return in the S&P 500 broad index of large-cap U.S. stocks. These historically rare returns have prompted investors to park funds in the stock market in their greatest numbers since 2000, according to broker TD Ameritrade's index of investor participation.

While investors may be tempted to go all-in on the rising star of the stock market, there are a couple age-old investing guidelines they could consider to help guard against over-exuberance and limit losses if a correction comes:

### Portfolio rebalancing

QBI stands for qualified business income, which is generally your business net income other than income in the way of compensation. QBI is the basic figure you need to determine how much of the 20 percent reduction you get. It excludes business losses, as well as factoring in amortization and capitalized expenditures. QBI is determined separately for each business activity, not per taxpayer.

#### The first simple threshold rule is:

If your taxable income is less than \$157,500 as an individual filer, or \$315,000 as a married couple filing jointly, you can take the full 20 percent deduction from your QBI.

If your taxable income is higher than those levels, several other factors come into play. Buckle up and hold on, here is where it gets complex:

#### 2. Know whether your profession matters

Several "specified service professions" are treated differently under the new rules. The list includes health, law, consulting, athletics, financial services, brokerage services, accounting firms or "any trade or business where the principal asset ... is the reputation or skill of one or more of its employees or owners."

If your business is in one of these professional areas, the 20 percent reduction to your QBI starts to phase out to zero once your taxable income passes \$157,500 as an individual filer or \$315,000 as a married joint filer. The phaseout range before the reduction reaches zero is \$50,000 for individual filers and \$100,000 for married filers.

The phaseout range also determines how much of the next factor matters:

#### 3. Know whether wage and capital limits matter

Once you go above the threshold, special wage and capital limits start to reduce your deduction.

The formula for calculating the wage and capital limits is based on the greater of 50 percent of the W-2 wages paid by your business, OR 25 percent of the W-2 wages, plus 2.5 percent of the unadjusted basis of all qualified property acquired by your business over the year.

These wage and capital limits are phased in over the threshold and apply in full after passing the \$50,000 range for individual filers or \$100,000 for married filers.

#### Bottom line: Get help

As you can see, the 20 percent pass-through reduction can be a great benefit, but taking it can get complex very quickly. If you are a small business owner, don't try to do it yourself. The new rules apply for the 2018 tax year, so after you've wrapped up 2017 taxes under the old rules, contact us for a consultation to determine how to position your business under the new laws.

Investors can create a balanced investment portfolio by determining ahead of time how much exposure they want in several different asset classes, such as stocks, bonds, international assets, commodities and precious metals. A balanced portfolio purposely invests in asset classes that have:

- **Different levels of volatility.** Meaning how wide their swings from gains to losses is likely in any given year.
- **Limited correlation to each other.** Meaning that one asset class tends to rise or be unaffected when the other falls.

Once they've established a balanced portfolio, it simply needs to be rebalanced on a regular basis.

For example, suppose an investor decided to create a simple portfolio of 50 percent U.S. stocks, 30 percent international stocks and 20 percent U.S. bonds. After three months, a rise in U.S. stocks may have pushed the portfolio out of balance, with a 58 percent exposure to U.S. stocks, 27 percent in international stocks and 15 percent in U.S. bonds. The portfolio could be rebalanced by selling that extra 8 percentage point

In the meantime, please be patient. The IRS has yet to publish guidance on the new rules.

## NEW 2018 CAPITAL EXPENSE RULES



There are many provisions in the tax reform bill passed in late 2017 designed to benefit small business owners. They include a lower corporate tax rate as well as a special tax reduction for business structures taxed as pass-through entities. 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 about them:

### **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.

#### **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.*
- *Section 179 cannot generally be used on real estate or land purchases, but this changes somewhat under the new laws. You can now use Section 179 on property used to furnish lodging or in*

gain in U.S. stocks and buying the proper amounts of international stocks and bonds to bring the balance back to where it was three months earlier.

This is a valuable technique because it automatically tends to sell some of an asset class when it is overpriced, and reinvest in an asset class when it is underpriced. This may reduce the overall volatility and improve the total returns in an investment portfolio over time.

### Automatic investing

The second technique is called automatic investing, which means following a disciplined strategy of regularly investing small amounts over time, regardless of whether the markets are going up or down.

A person who is making regular investments from every paycheck into a retirement investment fund like a 401(k) is already doing a form of automatic investing.

The benefit of automatic investing is that it keeps our emotions out of the process.

For example, an

overreaction to a market downturn may cause a person to invest less or sell existing investments, when in reality the

new 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.

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We hope you found this information helpful. Call today to schedule your appointment to start getting into financial shape!

973.325.3370

Sincerely,

The Partners and Staff  
Couto DeFranco, P.A.

**EXCITING COUTO DEFRANCO NEWS:**  
We've been recognized as

When in reality the downturn was only temporary. By sticking with automatic investing, the theory is that shares would be purchased more cheaply during an asset correction.

Conversely, overenthusiasm to a market upturn might cause someone to eagerly dump a lump sum in an asset in the hope of chasing a gain. Over exuberant markets may crash however, meaning emotions caused an investor to buy when prices were high, and to take a loss when they drop. Automatic investing would've spread those purchases out into small amounts, meaning some would be made when the market was high and some when it was low - which cushions the blow from an unexpected downturn.

Remember, both portfolio rebalancing and automatic investing are just basic guidelines that help us avoid being swayed by our emotions when we make investments. Always talk to a qualified investment advisor when you are making investment decisions. He or she can help you carefully weigh the risks and benefits of your strategy.

## "Top Wealth Managers in NJ"

5th Year in a Row!!



### **Nelson Couto and Anthony DeFranco** honored with a recognition by **NJ Monthly Magazine** in its selection of "**Top Wealth Managers In NJ 2018**"

Nelson Couto, CPA, CFP® and Anthony DeFranco, CPA, CFP®, MS (Taxation) of Couto DeFranco, P.A. have been named as 2018 Five Star Wealth Managers and featured in New Jersey Monthly magazine January 2018. Out of the 5063 wealth managers in New Jersey who were seriously considered for the award, 672 were named. This is their fifth time winning this prestigious award.

"We are delighted to be acknowledged as a Five Star Wealth Manager by New Jersey Monthly," says Nelson Couto. "We are proud that the work we have done for our clients has been recognized," says Anthony DeFranco.

Couto and DeFranco are recognized as leaders in the field of wealth management. They combine their knowledge of financial planning with over 30 years as CPAs, helping their clients with their wealth management and tax planning needs, along with assisting them with their financial goals and aspirations.

They believe the best way to help clients reach their financial goals is simple: to listen. "It is important to listen to where they are today and where they want to be tomorrow," says Nelson Couto. The partners feel that clients are paying them for their knowledge-both as NJ Certified Public Accountants and as Certified Financial Planner™ professionals-so it is their responsibility to develop a financial plan that is sound, objective and honest. This model has been their secret to success.

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