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**RE: Preparation of 2018 Personal Income Tax Returns**

Dear Tax Client:

Happy New Year, and wishing you God's blessings in 2019. To those clients who are returning to us once again for tax preparation, we sincerely thank you for your past patronage and ask that you spread the word to your friends and family of our tax preparation services. To our new clients, we thank you in advance for your business and pledge to serve you with quality and professional customer service.

The cutoff to file your 2018 personal income tax return is **Monday, April 15, 2019**. If you live in Maine or Massachusetts you have until **Wednesday, April 17, 2019** to file your 2018 Form 1040 because of Patriot's Day and Emancipation Day holidays. Please contact our office for preparation of your 2018 tax return at your earliest convenience, after you have received all necessary supporting documentation to prepare your return.

Note that all federal and state tax returns prepared by our company will be electronically filed to the federal and state governments. Your returns will be prepared solely on the basis of information submitted to us by you, the tax client.

All clients and their spouses/partners are now required to provide their driver's **license or state photo ID details** to us every year. Some states are now requiring this information for identity verification when income an income tax return is e-filed. This information needs to be provided to us in the **Personal Data** form noted below.

**Major Federal Tax Changes – The Tax Cuts and Jobs Act of 2017**

On December 22, 2017, President Trump signed into law the "Tax Cuts and Jobs Act" (TCJA of 2017). Arguably the most significant changes to the IRS tax code in decades, the law reduces tax rates for individuals, repeals many deductions, but adds some significant deductions as well that may benefit many tax payers.

The TCJA introduced new tax rates for regular federal income tax. The beginning taxable income for each tax bracket in 2018 is as follows:

1.) Single

10% -> Income = \$0  
12% -> Income = \$9,526  
22% -> Income = \$38,701  
24% -> Income = \$82,501  
32% -> Income = \$157,501  
35% -> Income = \$200,001  
37% -> Income = \$500,001

2.) Married Filing Jointly and Surviving Spouse

10% -> Income = \$0  
12% -> Income = \$19,051  
22% -> Income = \$77,401  
24% -> Income = \$165,001  
32% -> Income = \$315,001  
35% -> Income = \$400,001  
37% -> Income = \$600,001

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#### 3.) Married Filing Separately

10% -> Income = \$0  
12% -> Income = \$9,526  
22% -> Income = \$38,701  
24% -> Income = \$82,501  
32% -> Income = \$157,501  
35% -> Income = \$200,001  
37% -> Income = \$300,001

#### 4.) Head of Household

10% -> Income = \$0  
12% -> Income = \$13,601  
22% -> Income = \$51,801  
24% -> Income = \$82,501  
32% -> Income = \$157,501  
35% -> Income = \$200,001  
37% -> Income = \$500,001

For 2018 federal tax returns, the TCJA suspends personal exemptions but roughly doubles the standard deduction amounts to \$12,000 for singles and separate filers, \$18,000 for heads of households, and \$24,000 for joint filers.

With the TCJA's near doubling of the standard deduction for 2018 and reduction of itemized deduction benefits overall, many taxpayers who've typically itemized on their federal returns in the past may no longer benefit from itemizing on the federal tax return.

Here's a closer look at the major TCJA changes to itemized deductions on the 2018 federal income tax return:

#### 1.) State and local tax deduction

Taxpayers can claim a deduction of no more than \$10,000 for the aggregate of state and local property taxes and either income or sales taxes.

#### 2.) Mortgage interest deduction (form 1098)

You can **ONLY** deduct the interest from a loan secured by your home to the extent the loan proceeds were used to buy, build, or substantially improve your home.

You can deduct home mortgage interest on the first \$750,000 (\$375,000 if married filing separately) of indebtedness. However, higher limitations (\$1 million (\$500,000 if married filing separately)) apply if you are deducting mortgage interest from indebtedness incurred before December 16, 2017.

Home equity interest, which is defined as the interest from a loan secured by your home to the extent the loan proceeds weren't used to buy, build, or substantially improve your home, is no longer deductible, regardless when the indebtedness was incurred.

Clients who receive form 1098 with mortgage interest will need to complete a new **Mortgage Interest Supplemental Information form**, as noted below, for every form 1098 received. This new form is required to identify the portion of the mortgage interest that can be deducted as an itemized deduction.

#### 3.) Medical expense deduction

Qualified medical expenses are deductible only to the extent they exceed 7.5% of adjusted gross income

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#### 4.) Miscellaneous itemized deductions subject to the 2% floor

All other itemized deductions subject to the 2% floor are repealed, including:

- Unreimbursed employee expenses
- Union dues
- Tax preparation fees
- Investment expenses
- Dues to professional societies
- Home office of an employee
- Job search fees
- Legal fees (including for settlements)
- Tools used for job
- Work clothes and uniforms
- Work-related education
- Educators classroom expenses more than \$250

#### 5.) Personal casualty and theft loss deduction

This deduction is suspended except if the loss was due to an event officially declared a disaster by the President.

#### 6.) Charitable contribution deduction

The limit on the deduction for only cash donations to public charities is raised to 60% of adjusted gross income from 50%. Any excess contributions can be treated as a charitable deduction in the five years after.

Some states in the past, typically reflected the federal itemized deductions as a component of their state income tax return. New York is an example of this. Since the 2018 federal law regarding itemized deductions has drastically changed regarding what is allowed to be deducted, some states have decoupled from the federal changes going forward. For example in New York for the tax year 2018, the state tax law now allows you to itemize your deductions whether or not you itemized your deductions on your federal income tax return. In general, your New York itemized deductions are computed using the federal rules as they existed prior to the enactment of the TCJA.

As such, New York clients are urged to continue to provide itemized deduction detail under the old federal rules to get the best state deduction. If you have questions regarding any other state regulation, please contact our office.

The TCJA also introduced a new 20-percent deduction for pass-through businesses, commonly known as the section 199A deduction or the deduction for qualified business income. Section 199A of the IRS code provides many taxpayers a deduction for qualified business income from a qualified trade or business operated directly or through a pass-through entity. The deduction has two components:

- 1.) Eligible taxpayers may be entitled to a deduction of up to 20 percent of qualified business income (QBI) from a domestic business operated as a sole proprietorship or through a partnership, S corporation, trust or estate. For taxpayers with taxable income that exceeds \$315,000 for a married couple filing a joint return, or \$157,500 for all other taxpayers, the deduction is subject to limitations such as the type of trade or business, the taxpayer's taxable income, the amount of W-2 wages paid by the qualified trade or business and the unadjusted basis immediately after acquisition (UBIA) of qualified property held by the trade or business. Income earned through a C corporation or by providing services as an employee is not eligible for the deduction.
- 2.) Eligible taxpayers may also be entitled to a deduction of up to 20 percent of their combined qualified real estate investment trust (REIT) dividends and qualified publicly traded partnership (PTP) income. This component of the section 199A deduction is not limited by W-2 wages or the UBIA of qualified property.

The sum of these two amounts is referred to as the combined qualified business income amount. Generally, this deduction is the lesser of the combined qualified business income amount and an amount equal to 20 percent of the taxable income minus the taxpayer's net capital gain. The deduction is available, regardless of whether an individual itemizes their deductions on Schedule A or takes the standard deduction.

For further details on new section 199A deduction, refer to the following link:

<https://www.irs.gov/newsroom/tax-cuts-and-jobs-act-provision-11011-section-199a-qualified-business-income-deduction-faqs>

**Important “Due Diligence” Requirements by the IRS**

Beginning in 2018, the IRS has expanded the “**Due Diligence**” requirements and responsibilities of tax preparers to ensure that the following tax status being provided by the taxpayer is complete and accurate:

HOH (Head of Household Filing Status)

The IRS continues to mandate “**Due Diligence**” requirements and responsibilities of tax preparers for the following items to ensure that the information being provided by the taxpayer to calculate the following tax credits is complete and accurate:

- a.) CTC / ACTC / ODC (Child Tax Credit, Additional Child Tax Credit & Other Dependent Credit)
- b.) EITC (Earned Income Tax Credit)
- c.) AOTC (American Opportunity Tax Credit – Education Credit)

As such, we will continue to expand our interview with clients who claim any of the credits above to provide our office with adequate information to comply with this IRS mandate. Clients who are claiming Head of Household and/or who are eligible for the Child Tax Credit, Additional Child Tax Credit, Other Dependent Credit, Earned Income Tax Credit and/or American Opportunity Tax Credit will be required to complete an expanded list of **Due Diligence** forms as noted below, including a requirement to provide documentation to us as noted in the forms to support the credit deductions. No exceptions.

**Required Additional Information for New York and New Jersey Taxpayers**

Additional information for New York and New Jersey taxpayers is required to be completed by all applicable clients on the **Personal Data** forms noted below, as follows:

a.) New York Taxpayers

- Provide school district name
- Enter the document number from your drivers' license. It is a 8 or 10 digit combination of numbers and letters of you license, non driver-ID or permit. It is on the front lower right corner of card if issued before 1/28/14 or on back of card issued after 1/28/14.
- Indicate if you or your spouse (or an entity of which you are an owner) have or have not been convicted of an offense, defined in New York State penal code law article 200 or 496, or section 195.20.

b.) New Jersey Taxpayers

- Full year and part-year residents, indicate if you (or spouse) purchased taxable items without paying New Jersey sales tax. This includes orders over the internet, by mail, or by phone on which you did not pay New Jersey sales tax. This also includes out-of-state purchases on which you paid tax at a rate less than 6.875%. If yes, provide details to determine calculation of use tax owed to the State of new Jersey.
- For those clients who are filing a New Jersey income tax return, you are eligible for a \$3,000 exemption on your Income Tax return if you are a military veteran who was honorably discharged or released under honorable circumstances from active duty in the Armed Forces of the United States on or any time before the last day of the tax year. Your spouse (or civil union partner) is also eligible for an exemption if he/she is a veteran who was honorably discharged or released under honorable circumstances and you are filing a joint return. This exemption is in addition to any other exemptions you are entitled to claim and is available on both the resident and nonresident returns. You cannot claim this exemption for a domestic partner or for your dependents.

In order to claim the new Veteran's exemption, Enter "YES" on the **2018 Personal Data Form** (noted below) indicating you are claiming the exemption. At the bottom of the **2018 Personal Data Form**, if not previously provided, complete and return the **Veterans Income Tax Exemption Submission Form** and provide us with a copy of your **official discharge document** to certify your eligibility for the Veterans Exemption. Any documentation submitted must list your characteristic of service (discharge). We only need a copy of your records the first time you claim the exemption. **You do not need to provide documentation each year.** Examples of official discharge documents are as follows:

DD 214	Certificate of Release or Discharge from Active Duty
DD Form 256	Discharge Certificate
WD AGO 53	Enlisted Record and Report of Separation Honorable Discharge
WD AGO 53-98	Military Record and Report of Separation Certificate of Service
WD AGO 55	Honorable Discharge from the Army of the United States
NA Form 13038	Certificate of Military Service
NAVCG 553	Notice of Separation from U.S. Coast Guard
NAVMC 78PD	U.S. Marine Corps Report of Separation
NAVPER 553	Certificate of Separation/Discharge from U.S. Navy
County Veteran ID Card	Veteran identification card issued by any of the New Jersey counties
Federal Veteran ID Card	Veteran identification card issued under the Veterans Identification Card Act

**Requirements for Filing**

Please refer to our website at [www.jptfinancial.com](http://www.jptfinancial.com) and open the tab labeled "Documents" to obtain a list of specific information and forms that are required to prepare your 2018 income tax return. If you do not have access to the web please contact our office and we will mail you a set of forms to be completed as needed.

1.) **Client Data Form**

**ALL** CLIENTS (both new and existing) are asked to complete the **Client Data Form** to ensure that we have complete up to date information for all our clients.

**NEW** clients are also required to provide our office with a copy of the following:

- (a) Your 2017 prior year income tax return (federal and states as applicable)
- (b) A driver's license or state photo ID for the taxpayer and spouse
- (c) Social security cards for the taxpayer, spouse and dependents for identify verification.

2.) **Personal Client Resources** – Select "2018 Tax Season" for each:

- (a) **Tax Checklist for Preparing Personal Tax Returns** - A general recap of information and supporting documentation that is needed for tax preparation. Please provide our office with all relevant forms and information noted in this checklist to prepare your tax return.
- (b) **Engagement Contract for Personal Professional Services** - Required from **ALL** clients **PRIOR** to the preparation of your income tax return. Please review the contract, sign and date, and return the acknowledged copy to our office.

- (c) **Personal Data** – Required from **ALL** clients every year. Complete this form to include filing status, taxpayer and spouse social security numbers, drivers license or state photo ID details, NJ Veterans exemption information (noted above) and any estimated tax payment information for 2018 if applicable.
- (d) **Dependents** – Complete this form to include relevant information for all dependents that you claim on your tax return. New clients are required to supply our office with the social security card for all dependents.
- (e) **Direct Deposit & Electronic Funds Withdrawal Information** – Required from **ALL** clients every year (including a copy of a voided check), to set up a direct deposit of your tax refund and/or electronic funds withdrawal from your bank account or credit card for the payment of any income tax liability if desired.
- (f) **Health Insurance Coverage** – **ALL** clients are required to complete these forms for all members of your “tax family”, defined as individuals for whom you are claiming a personal exemption on your tax return (generally you, your spouse with whom you are filing a joint return, and your dependents). Residents must maintain minimum essential health coverage or pay a penalty. Minimum essential coverage includes government sponsored programs (Medicare, Medicaid), eligible employer-sponsored plans, plans in the individual market, certain grandfathered group health plans and other coverage as recognized by the Department of Health and Human Services.
- (g) **Due Diligence Forms** – As stated above, **ALL** clients who are filing as **HOH** (Head of Household) or who are eligible for the **CTC/ACTC/ODC** (Child Tax Credit, Additional Child Tax Credit & Other Dependent Credit), **EITC** (Earned Income Tax Credit), and/or **AOTC** (American Opportunity Tax Credit) for education will be required to complete these individual due diligence forms, including a requirement to provide documentation to us as noted in the forms, to support these status and credit deductions.

The IRS continues to significantly increase the responsibility of tax preparers to ensure that information being provided by the taxpayer to calculate these credits is complete and correct. As such, we will interview all clients who claim these credits to provide our office with adequate information to comply with this IRS mandate.

- (h) **Mortgage Interest Supplemental Information** – As stated above, complete this form for each mortgage interest form 1098 that you received in 2018.
- (i) **Child & Dependent Care** – Complete this form if you had any child or dependent care expenses in 2018.
- (j) **Profit or Loss from Business** – Complete this form if you operated a business as a sole proprietor in 2018.
- (k) **Small Employer Health Insurance Credit** - Complete this form to provide information for the calculation of the small business health insurance credit if applicable for your sole proprietorship in 2018.
- (l) **Auto Expense Worksheet** - Complete this form to deduct expenses of your automobile for business in 2018.
- (m) **Expenses for Business Use of Your Home** – Complete this form if a portion of your home was used for a sole proprietor business in 2018.
- (n) **Employee Business Expenses** – Complete this form to identify any non-reimbursed employee business expenses that you incurred in 2018.
- (o) **Sale of Capital Assets** – Complete this form for any sale of stocks, bonds, etc. in 2018. As an alternative, you can provide copies of statements that you may have which provide information that is stated on the forms.
- (p) **Sale of Home** – Complete this form if you sold your home in 2018. As an alternative, you can provide copies of statements that you may have which provide information that is stated on the forms.
- (q) **Energy Credits** – Complete these forms if you have incurred expenses related to special energy related deductions in 2018.
- (r) **Casualty and Theft Losses** – Complete this form if you had any casualty or theft loss in 2018.
- (s) **Rental Real Estate & Royalties** – Complete this form if you had a rental income or loss activity in 2018.

**(t) Issuing 1099-MISC Forms for Real Estate Property**

Form 1099-MISC needs to be issued by you as the owner of a rental property or business enterprise for certain types of payments made in 2018 which are more than \$600 to an individual recipient. This form needs to be issued to each recipient by January 31, 2019 when reporting nonemployee compensation payments in box 7. The due date to recipients is extended to February 15, 2019, if you are reporting payments in boxes 8 (substitute payments in lieu of dividends or interest) or 14 (gross proceeds paid to an attorney). File Copy A of this form with the IRS by January 31, 2019 if you are reporting payments in box 7. Otherwise, file by February 28, 2019, if you file on paper, or by April 1, 2019, if you file electronically. Review this document for further details and information to complete this requirement.

**(u) Installment Sales** – Complete this form if you had an activity related to a sale set up on an installment basis in 2018.

**(v) Non-Cash Charitable Contributions** – Complete this form if you had non-cash related charitable contributions in 2018.

**(w) Household Employment Taxes** – Complete this form if you had any household employees in 2018.

**(x) Request to File an Extension** – Complete this form if you wish to file an extension for filing your 2018 income tax return.

**IMPORTANT**

In order for our firm to satisfy IRS requirements to sign-off and electronically file your return as a “paid preparer”, it is **required** that clients remit payment for services prior to electronic transmission of your tax return. As such, payment to JPT Financial Solutions for your tax return **is due upon receipt or notification of the completed tax return**. A 1.5% monthly interest late fee will be reflected on all past due accounts over 15 days. Note that we now accept credit cards for payment of your tax return preparation.

Thank you in advance for your kind assistance and for letting us be of service to you. If you have any questions please don't hesitate to contact us.

JPT FINANCIAL SOLUTIONS, INC.