Crow Shields Bailey PC
Reaching beyond the numbers.

Beyond the Numbers

A Crow Shields Bailey PC News Publication

Winter 2018

Crow Shields Bailey PC 30 Years of Service

Client Spotlight

Richard True, David Rasp, Jessica McGee

Humble Beginnings

"Born here, been here, still here." David Rasp takes pride in being a homegrown, local business owner. On November 6, 1998, he opened his original Heroes Sports Bar & Grille location at 273 Dauphin St. in Downtown Mobile. Previously, this address had been home to his own favorite sports bar, Big Kahuna's Sports Café. Having no experience in the restaurant industry, Rasp simply wanted to recreate Big Kahuna's after they closed, with a small menu of bar food.

As time went on and Rasp began to find his footing, the menu grew as customers expressed their ideas, which eventually became essential Heroes favorites. For instance, employees of Bender Shipyard were responsible for bringing about the shrimp poboy! Rasp began to realize that in order to be successful he had to view everything from the perspective of the guests, even the smallest details. He also realized the importance of great food at a great price.

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Our Vision

Our firm's objective is to maximize our clients' wealth. We strive to be the premier accounting and consulting firm in our area by offering a complete range of quality services to our clients. We will employ only the best people and ensure outstanding training and long-term career opportunities.

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Holiday Message

This is truly a historical time for CSB. This old man is transitioning from my 33 years as Managing Shareholder to just another team member of the firm. I have marked this date on my calendar for some time. It is bitter sweet in many ways, but it is time for new energy, new ideas, and a new tomorrow. Gina McKellar will assume that role beginning January 1, 2019. She will do an awesome job and guide our firm to new heights. Gina has embraced this new role and I am confident she will do a fantastic job.

Our practice strives to be the trusted advisor to our clients as we provide new services that help clients reach their financial goals. Technology continues to change our profession every day and we intend to stay ahead of that curve by embracing innovation. Our membership in the RSM Alliance provides our team with consistent training and the resources we need to earn the trust and respect of our clients.

As the Holiday Season approaches, we pause for a moment to give thanks for all our blessings. We are so appreciative to the clients we serve and to our great team that continues to soar higher. We wish all our friends a Merry Christmas and a Happy New year!

Kenny Crow, Jr.

Moving On Up

Eight years after opening the original Heroes location, Rasp opened The Royal Scam in order to serve hotel guests along Royal Street. The Scam is a casual fine dining restaurant that aims to please many different tastes. They serve a variety of delicious entrées, ranging from Filet Mignon to Shrimp and Grits. This year, they won the Nappie Award for Best Gumbo!

Heroes West Mobile opened in June 2011. Between 2016 and 2017, the West Mobile location went from the third best seller of all three stores to the first following extensive renovations. The renovations addressed parking, drainage, and general aesthetics. Heroes West Mobile is geared towards families, college students, and those who know and love the downtown location, but live too far away to frequent it.

The Heroes menu is now very broad with a wide variety of delicious choices. It has come a long way from just a small menu with bar food!

Overcoming Obstacles

As with any restaurant, the biggest obstacle David Rasp has faced is the ongoing challenge of staffing. Turnover rates for restaurants are notoriously high. Rasp has found that the best solution to combat this issue is to create an environment where employees like to work. A few of the things that keep his employees happy include rewards, benefits, and PTO plans for hourly personnel.

Another challenge faced by Rasp and other local restaurants is the influx of corporate chains. For so many years, he was fighting these battles alone. Now, he has a fantastic upper management team that includes Jessica McGee and Richard True. While Rasp has great teams at each individual store, he relies heavily on Jessica and Richard's help to ensure that all three stores run smoothly.

Culture

Regardless of the differences in atmosphere or client base, each store has an employee-friendly culture and a team that puts the guests first. In order to accomplish this, management hires the best people in the business and works hard to retain them. Rasp feels that he has excellent team players who wear multiple hats, which creates a dynamic work environment.

Being involved in and giving back to the community that has helped make him successful is also very important to Rasp. He supports many local charities and organizations, such as Ronald McDonald House, Camp Rap-A-Hope, and Mobile Arts Council.

Being on the Gulf Coast, Rasp emphasizes the fact that we are blessed with an abundance of fresh seafood. He also feels blessed to be embraced by the community. Over the years, the guests have not only framed the current menus of his restaurants, but also the atmospheres and cultures individual to each store. The original Heroes location has many Mobile sports-related photos and memorabilia lining the walls. Rasp says that he and his stores are "so Mobile, it's crazy!"

Relationship with CSB

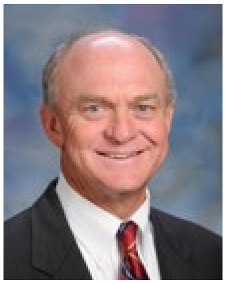
David Rasp and Jessica McGee began their relationship with CSB through our Businesses Getting Results (BGR) program. While he already knew our Managing Shareholder, Kenny Crow, Rasp says that his involvement in BGR was one of the main reasons he decided to hire CSB. His favorite takeaway from those lessons was to work "on your business versus in your business." He says that BGR pushed him to be better at delegation and many other necessary elements of running a business.

According to Rasp, "CSB is not just a great CPA firm; they offer so much more." He says Shareholders Kenny Crow and Ryan Damrich are "great advisors" and La Nette Caskey's QuickBooks training has been vital to the operation of his businesses. He is grateful to have a great relationship with many of the CSB team members. Rasp also says that he admires Kenny Crow's "coach-like mentality" and he likes to think that he, too, possesses that mentality when it comes to running his businesses.

It is safe to say that David Rasp has created something special for the community. This is apparent for many reasons, including the fact that the people of Mobile have voted Heroes Sports Bar & Grille Best Sports Bar multiple times, and The Royal Scam has won multiple Nappie Awards for various categories. It is also apparent when you realize the close relationships Rasp and his team members hold with the regular guests. Some frequent the restaurants every day, some every weekend during football season. No matter which restaurant you visit, you will likely leave in a better mood than when you arrived. For more information, visit www.heroessportsbar.com or www.royalscammobile.com.

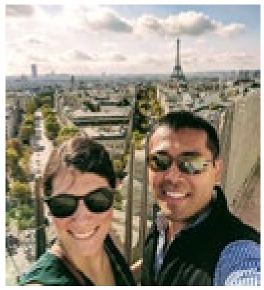
– By Emilee Shuler

Team Member news



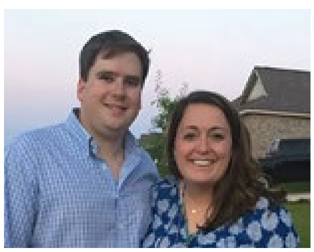
Kenny Crow was appointed to serve on the Mobile Area Chamber of Commerce Board of Directors.

Kirsten and Sim Sokom are expecting their first child in March 2019!



Andrew Bailey was honored with the Standing Ovation Award for exemplary professional achievement in Forensic and Valuation services.

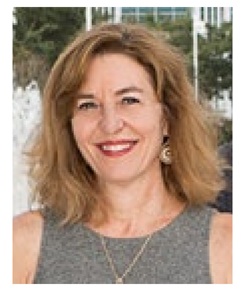
Andrew Bailey and his wife Jenny are expecting their first child in January 2019!



Abby Roveda attended the RSM Experienced In Charge Conference in St. Charles, IL.

Emilee Shuler was inducted in the Rotary Club of Mobile-Sunrise.

Gina McKellar won the 2018 Nappie Award for Best CPA.

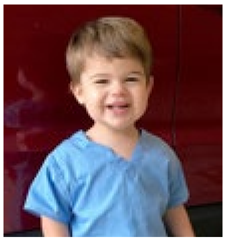


Frank Schottgen was elected to the CCA Alabama Mobile Chapter Board of Directors.

Barb Frerman is a "Geebs" again! Sarah, Kelley, and Cole welcomed baby Emma Blume Wheeler into their family on October 29th.

Brian and Ellie Russell celebrate at their wedding, May 19, 2018, in Augusta, GA. Brian is the son of Gina and Pudgy McKellar.

Thomas Russell, son of Gina and Pudgy McKellar, graduated *summa cum laude* with Honors from The University of Alabama on May 5, 2018, receiving a Bachelor's of Science in Accounting from the Culverhouse College of Business.



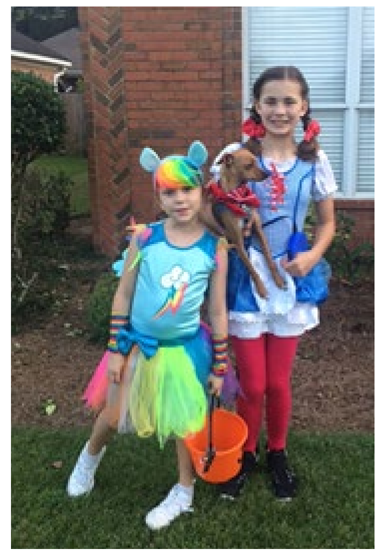
Abby Roveda's son George dressed up for Doctor Day at school.

In May, Cindy Rathle's daughter Madeline graduated Magna Cum Laude with a Journalism degree from the LSU Manship School of Mass Communications, where she received the Distinguished Communicator Award. In January, she will begin work towards a graduate degree in Publishing at New York University. Also in May, Olivia Rathle graduated from UMS-Wright Preparatory School. She is now a Freshman at The University of Alabama, where she is studying advertising and Public Relations.

John Shields with his daughter, Anna Mary, who married her sweetheart, Harper Hollis, on October 27th.

Lauren Cameron's son Landon graduated from preschool!

Teresa Ernest's daughters, Catherine and Elizabeth, dressed up for Halloween!



Deborah Fisher's grandson, Finn, at the Magnolia Corn Maze.

Ruth Ann & Johnny Holland celebrated the 45th Anniversary of their first date by going back to the same place, Pensacola Fair, on the same day, Saturday, October 20th.

CSB Cares

Our team raised over $2,000 for the Junior Achievement Bowling Classic.

We participated in the Fairhope Rotary Steak Cookoff to benefit their community projects.

Pencils and Glue for Bingo and Brew benefitting the Ruff Wilson Youth Center and Fairhope Rotary Youth Club.

Emilee Shuler raised over $1,500 for The 74 Club and rappelled down 20 stories.

Our team participated in the dragon boat races to benefit The Fuse Project with a Game of Thrones theme.

Office Fun

We had our Mardi Gras party at Moe's BBQ Downtown

Lauren Cameron was winner of Team Spirit Award for College Colors Day

Ryan Damrich Funniest Costume, Markie Cobb Creepiest Costume, Kristen Gibson Best Overall

End of tax season party

See New Team Members on Page 13

Tax Time Reminder

With the end of 2018 approaching, it's time to get a jump on collecting your tax information to maximize your year-end tax planning. For your convenience, CSB will mail tax organizers around the first of January to help with organizing important information.

Have your income or expenses significantly changed?
Please call our office right away to maximize year-end tax planning.

Want to gauge your 2018 tax situation and prepare a tax savings strategy?
Make an appointment with us today!

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2018 Year-End Income Tax Planning For Individuals

The **"Tax Cuts and Jobs Act" (TCJA)** signed into law in late 2017 represents the most substantial tax reform legislation since 1986, and most of its provisions **are first effective in 2018.** For example, **generally starting in 2018,** TCJA: Reduces income tax rates for the vast majority of individual taxpayers; Reduces or eliminates altogether certain itemized deductions; Substantially increases the standard deduction; Expands or modifies certain child and dependent tax incentives; Almost doubles the estate tax exemption; Significantly reduces the corporate income tax rate; Provides for more rapid business write-offs for capital expenditures; Creates a new 20% deduction for owners of certain pass-through business entities (e.g., proprietorships, partnerships, LLCs, S corporations); and much more. It is no overstatement to say that this mammoth tax bill is already having a major impact on many, if not most, businesses and individuals.

We are sending you this letter so you can stay informed on the provisions of TCJA that we believe are having the greatest impact on individual clients. The IRS continues releasing a steady stream of guidance on many of TCJA's more important provisions. Therefore, this letter also includes a discussion of the most important IRS guidance that has been released to date on TCJA.

Caution! Even though the IRS has released guidance on various TCJA provisions, we are still waiting for further IRS clarifications on several important provisions. The IRS continues to release guidance sporadically, but it is impossible to predict the IRS's time table for releasing additional guidance in the future. We closely monitor these IRS releases on an ongoing basis. Please call our firm for the latest IRS notifications and announcements regarding any TCJA provision that we do not address in this letter. Also, **we suggest you call our Firm before implementing any tax planning technique discussed in this letter.** You cannot properly evaluate a particular planning strategy without calculating your overall tax liability with and without that strategy. This letter contains ideas for Federal income tax planning only. **State income tax issues are not addressed.**

The **FIRST PART of this letter** discusses changes we believe will have the most **significant impact on "INDIVIDUALS."** The **LAST PART** discusses changes we believe will have the **greatest impact on "BUSINESSES."**

Selected Tax Reform Provisions Primarily Impacting Individuals

PLEASE NOTE - Each of the changes below **impacting "Individual"** taxpayers **is first effective in 2018** and will **sunset after 2025** (unless we indicate otherwise)!

Changes In Tax Rates, Standard Deduction, Personal Exemptions, Amt, And Credits

Changes In The Individual Income Tax Rates. Before TCJA, there were seven regular income tax rate brackets as follows: 10%, 15%, 25%, 28%, 33%, 35%, and 39.6%. **Starting in 2018 and through 2025,** TCJA changes the seven tax rate brackets to: 10%, 12%, 22%, 24%, 32%, 35%, and 37%. As compared to prior law, TCJA's regular income tax rates generally reduce the tax rate on comparable levels of taxable income. **Caution!** TCJA **did not change** the **3.8% Net Investment Income Tax** on investment income (e.g., capital gains, dividends, passive income) which will continue to apply once the modified adjusted gross income of married taxpayers filing jointly exceeds $250,000 (exceeds $200,000 if single). **Observation.** Although TCJA lowers the actual tax rates at most income levels (regardless of filing status), the overall tax impact on a particular individual or family as compared to prior law will vary due to other changes in TCJA, such as: an increase in the standard deduction, loss of personal and dependency exemptions, the elimination or limitation of certain itemized deductions, increases in the child tax credit, higher income phase-outs for the child credit, and a new credit for certain qualifying dependents.

Minor Changes In The Tax Rates For Long-Term Capital Gains And Qualified Dividends. Starting in 2018 and through 2025, TCJA retains the same 0%, 15%, and 20% rates that applied before 2018 to long- term capital gains and qualified dividends. Under TCJA, the 0%, 15%, and 20% rates apply at income levels similar to prior law.

Increased Standard Deduction. In an attempt to help simplify the income tax rules for individuals, TCJA substantially increases the standard deduction **starting in 2018 and through 2025.** It is expected that far fewer people will benefit from itemizing their deductions, and therefore their record-keeping will be simplified. TCJA increases the Standard Deduction to the following levels for 2018: Joint Return - $24,000 (up from $13,000); Single - $12,000 (up from $6,500); and Head-of-Household - $18,000 (up from $9,550).

Reduction Of Personal Exemption Deduction Amount To Zero. Starting in 2018 and through 2025, TCJA **reduces the personal exemption deduction** for taxpayers and their dependents **to zero!** Under prior law, the personal exemption amount for 2018 was scheduled to be $4,150. **Observation.** Under prior law, to be a "dependent" of a taxpayer, the person had to be either the Taxpayer's "Qualifying Child" or "Qualifying Relative." Although the personal exemption deduction **is reduced to zero** for dependents, TCJA retains the previous definitions of "Dependent," "Qualifying Child," and "Qualifying Relative," for other purposes, such as: Head-of-Household status; the Earned Income Credit; the American Opportunity Tax Credit; the increased Child Tax Credit; and the new $500 Family Tax Credit (discussed in more detail below).

Enhanced Child Tax Credit. For 2017, subject to certain income phase-out thresholds, individuals were allowed a maximum Child Tax Credit of $1,000 for each **"Qualifying Child"** who **had not reached age 17** by the end of the tax year. **Starting in 2018 and through 2025,** TCJA doubles the maximum Child Tax Credit for each **"Qualifying Child"** to **$2,000,** and also significantly increases the income level where the credit begins phasing out. Under TCJA, the Child Tax Credit begins phasing out as the individual's modified adjusted gross income (MAGI) **exceeds $400,000** on a **Joint Return** (up from the previous $110,000), or **exceeds $200,000 if Single** (up from the previous $75,000). For purposes of TCJA's enhanced Child Tax Credit, the term **"Qualifying Child"** has the same definition as under prior law (i.e., a child who meets certain residency, age, relationship, and support tests). **Tax Tip!** Due to the doubling of the maximum Child Tax Credit (from $1,000 to $2,000) and the substantial increases in the income phase-out thresholds, the Child Tax Credit will be more valuable and more widely available than under prior law. Also, TCJA allows **up to $1,400** (up from $1,000) of the Child Tax Credit to be "refundable." **Please note that** a **"refundable"** credit generally means to the extent the credit exceeds the taxes you would otherwise owe with your individual income tax return without the credit, the IRS will send you a check for the excess.

New $500 Family Tax Credit. TCJA creates a **new non-refundable "Family Tax Credit" of up to $500** for each person the taxpayer could have claimed as a dependent under prior law but who does not qualify for the $2,000 Child Tax Credit. This $500 Family Tax Credit will generally be available for a: **1)** "Qualifying Child" who does not qualify for the $2,000 Child Tax Credit because the child is 17 or older, and **2)** "Qualifying Relative." Generally, **a "Qualifying Relative"** is a person who is not a Qualifying Child but who meets certain residency, gross income, and relationship tests. This $500 Family Tax Credit is added to any other child tax credits and the total credits begin phasing out once a taxpayer's MAGI exceeds $400,000 on a joint return or $200,000 for singles.

Changes To The Alternative Minimum Tax For Individuals. Although TCJA **retains** the **"Alternative Minimum Tax"** (AMT) for individual taxpayers, **starting in 2018 and through 2025** the Act offers new relief by: **1)** Increasing the AMT exemption amounts for joint filers to $109,400 (up from $86,200) and for single filers to $70,300 (up from $55,400), and **2)** Increasing the amount of alternative minimum taxable income where the AMT exemption amount begins to phase out for joint filers to $1 million (up from $164,100) and for single filers to $500,000 (up from $123,100). **Tax Tip!** Due to these and other changes under TCJA, it has been estimated that the number of individuals subject to AMT will drop from approximately 5 million down to a level closer to 200,000.

Selected Changes To Various Tax Deductions For Individual Taxpayers

Impact Of TCJA On Certain "Above-The-Line" Deductions. So-called**"above-the-line"** deductions reduce both your "adjusted gross income" (AGI) and your "modified adjusted gross income" (MAGI), while **"itemized"** deductions (i.e., below-the-line deductions) do **not** reduce either AGI or MAGI. Deductions that reduce your AGI (or MAGI) can potentially generate multiple tax benefits by: **1)** Reducing your taxable income and allowing you to be taxed in a lower tax bracket; **2)** Freeing up deductions (and tax credits) that phase out as your AGI (or MAGI) increases (e.g., Child Tax Credit; Family Tax Credit; certain IRA contributions; certain education credits; adoption credit, etc.); **or 3)** Reducing your MAGI below the income thresholds for the 3.8% Net Investment Income Tax (i.e., 3.8% NIIT only applies if MAGI exceeds $250,000 if married filing jointly; $200,000 if single). Many of the popular **"above-the-line"** deductions were retained under TCJA. For example, the following above-the-line deductions were retained: IRA and Health Savings Account (HSA) contributions; Health insurance premiums for self-employed individuals; Qualified student loan interest; Business expenses for a self-employed individual.

Planning Alert! The deduction for qualified **"Moving Expenses"** was an above-the-line deduction and an employer's reimbursement of an employee's qualified moving expenses was a tax-free fringe benefit. **Starting in 2018 and through 2025,** except for certain active members of the Armed Forces, TCJA generally **suspends** the deduction for **"Moving Expenses"** and also suspends the income exclusion of employer- reimbursed moving expenses.

In addition, currently an individual making qualified alimony payments is allowed an "above-the-line" deduction for the payments and the recipient of the payments must include the payments in income. **Effective for "Divorce or Separation Instruments" executed after 2018,** TCJA **repeals altogether** the deduction for **alimony payments,** and the alimony payments **will no longer be taxable to the payee.** If the divorce instrument is **executed before 2019,** the alimony payments will continue to be deductible by the individual making the payments (and taxable to the recipient) unless the divorce instrument is **modified to expressly provide** that the alimony payments are to be nondeductible to the payer and nontaxable to the recipient. **Planning Alert!** Individuals contemplating divorce must **"execute"** a **"Divorce or Separation Instrument" before 2019** to ensure that any alimony payments will be deductible. Individuals who anticipate receiving alimony payments can avoid being taxed on those payments if they delay **"executing"** any **"Divorce or Separation Instrument"** until **after 2018. Caution!** The repeal of the deduction for alimony payments **has no sunset date!**

New Limitations On Certain "Itemized Deductions." "Itemized Deductions" (i.e., below-the-line deductions) do **not** reduce your AGI or MAGI, but may still provide tax savings if they exceed in

Continued on Page 10

the aggregate your Standard Deduction. Since TCJA substantially increases the Standard Deduction, it will take a larger amount of itemized deductions to generate a tax benefit after 2017. However, TCJA not only increases the amount of the Standard Deduction, it also repeals or places new limits on several popular itemized deductions. Consequently, it is anticipated that far fewer individuals will "itemize" deductions after TCJA.

New Limits On The Home Mortgage Interest Deduction. Before TCJA, individuals were generally allowed an itemized deduction for home mortgage interest: **1)** Paid on up to $1,000,000 ($500,000 for married individuals filing separately) of **"Acquisition Indebtedness"** (i.e., funds borrowed to purchase, construct, or substantially improve your principal or second residence and secured by that residence), and **2)** Paid on up to $100,000 of **"Home Equity Indebtedness"** (i.e., funds borrowed that do not qualify as "Acquisition Indebtedness" but are secured by your principal or second residence - regardless of how the funds are used). TCJA makes the following changes:

Reduction In Cap For "Acquisition Indebtedness." For **Acquisition Indebtedness incurred after December 15, 2017,** TCJA reduces the dollar cap for "Acquisition Indebtedness" **from $1,000,000 to $750,000** ($375,000 for married filing separately) for **2018 through 2025.** There are two **"grandfather"** rules that allow you to use the $1,000,000 cap for: **1)** Any "Acquisition Indebtedness" you **incurred on or before December 15, 2017,** or **2)** Any Acquisition Indebtedness that was incurred pursuant to a binding written contract entered into **before December 15, 2017** to close on the purchase of a **"principal residence"** before **January 1, 2018,** provided the individual purchased that residence **before April 1, 2018. Caution!** The $750,000 cap that generally applies to "Acquisition Indebtedness" incurred after December 15, 2017 is reduced by the outstanding balance of any grandfathered "Acquisition Indebtedness." **Planning Alert!** Subject to limited exceptions, if a taxpayer incurred Acquisition Indebtedness on or before December 15, 2017 (i.e., grandfathered Acquisition Indebtedness), the refinancing of that indebtedness after December 15, 2017 will still be entitled to the $1,000,000 cap (to the extent of the outstanding balance of the original Acquisition Indebtedness on the date of the refinancing).

Suspension Of Interest Deduction For "Home Equity Indebtedness." For 2018 through 2025, taxpayers may not deduct interest with respect to "Home Equity Indebtedness" (i.e., up to $100,000 of funds borrowed that do not qualify for "Acquisition Indebtedness" but are secured by your principal or second residence). **Caution!** Unlike the interest deduction for "Acquisition Indebtedness," TCJA **does not grandfather** any interest deduction for **"Home Equity Indebtedness"** that was **outstanding before 2018. Planning Alert!** Loans that have been labeled by your lender as a home equity loan, home equity line of credit (HELOC), or second mortgage on a Qualified Residence can be classified as "Acquisition Indebtedness" if the borrowed funds were used to **"substantially improve**" your Qualified Residence that secures the loan. Consequently, the interest on this type of home improvement loan continues to be deductible after 2017, subject to the $1,000,000 or $750,000 loan limitation, whichever applies.

$10,000 Cap On The "State And Local" Tax Deduction. From 2018 through 2025, the aggregate itemized deduction for state and local real property taxes, state and local personal property taxes, and state and local income taxes (or sales taxes if elected) is **limited to $10,000** ($5,000 for married filing separately). However, deductions continue to be allowed for state, local, and foreign **"property"** or **"sales"** taxes, and **foreign income, war profits,** or **excess profits taxes** paid or incurred in carrying on the taxpayer's **trade or business** (e.g., taxpayer's Schedule C, Schedule E, or Schedule F operations) or in connection with the taxpayer's production of income.

Changes To The Charitable Contribution Deduction. TCJA retains the charitable contribution deduction with the following changes: **1) From 2018 through 2025,** the 50% AGI limitation under prior law for cash contributions to public charities and certain other organizations **is increased to 60%,** and **2) Starting in 2018** (with no sunset date), a charitable contribution deduction is no longer allowed for contributions made to colleges and universities in exchange for the contributor's right to purchase tickets or seating at an athletic event (prior law allowed the taxpayer to deduct 80% as a charitable contribution).

Modifications To The Deduction For Qualified Medical Expenses. TCJA generally retains the existing rules for medical expense deductions. However, for **tax years beginning in 2017 and 2018** (for both regular tax purposes and AMT purposes), a taxpayer may deduct medical expenses to the extent they **exceed 7.5%** (down from 10%) of his or her AGI. The 7.5% threshold reverts back to 10% **after 2018.**

Suspension Of Miscellaneous Itemized Deductions Subject To The 2% Phase-Out Threshold. Before TCJA, certain "miscellaneous itemized deductions" were allowed only to the extent they exceeded in the aggregate 2% of the taxpayer's adjusted gross income (AGI). **Starting in 2018,** TCJA not only repeals this 2% reduction rule, but also **suspends through 2025** any deduction for "Miscellaneous Itemized Deductions" that were subject to the 2% of AGI reduction. Two important examples of the expenses that are suspended include: **Un-reimbursed employee business expenses;** and, Expenses attributable to the **management of investments**. **Planning Alert!** Although **"un-reimbursed"** employee business expenses are **not deductible after TCJA,** employee business expenses that are **reimbursed** under the employer's qualified Accountable Reimbursement Arrangement are not taxable to the employee. **Please call our Firm** if you need assistance in establishing or maintaining an Accountable Reimbursement Arrangement.

529 Plans Allowed To Pay K-12 Tuition. Previously, tax-favored distributions from 529 plans could only be made for post-high school education expenses. **Starting in 2018,** TCJA allows 529 plans to pay **up to $10,000 per beneficiary per year** of qualified tuition in connection with the enrollment or attendance of the designated beneficiary at **a public, private, or religious elementary or secondary school.** This provision has no sunset date!

Estate And Gift Tax Exemption Amount Increased To $11,180,000. Effective for individuals dying and gifts made after 2017 and before 2026, TCJA increases the **Basic Unified Exclusion Amount** for estate and gift tax purposes **to $11,180,000 for 2018** (after indexing for inflation). Previously, the exemption amount for 2018 was scheduled to be $5,600,000.

Selected Tax Reform Provisions Primarily Impacting Businesses

PLEASE NOTE - Unless we indicate otherwise, each of the changes below **have no scheduled sunset date!**

Reduction In Corporate Tax Rate. For tax years **beginning after 2017,** TCJA provides for a flat tax rate of 21% (down from a top 35% rate) for regular "C" corporations. **Planning Alert!** The IRS has confirmed that a fiscal-year C corporation essentially uses a blended tax rate for the fiscal year that includes January 1, 2018. Please call our Firm if you have a fiscal-year C corporation and you need information on determining this blended tax rate for your corporation.

Repeal Of "Corporate" Alternative Minimum Tax (AMT). TCJA **repeals** the **corporate AMT** for **tax years beginning after 2017.** A corporation will be allowed a **refundable credit** for each of the **tax years beginning in 2018, 2019, and 2020** equal to **50%** of unused AMT credit carryovers to those respective years in excess of the regular tax for those years. Any **AMT credit carryover amount** that remains unused after applying it to the **2021** regular tax is 100% refundable. **Planning Alert!** The IRS has also confirmed that a fiscal-year C corporation essentially uses a blended AMT rate for the fiscal year that includes January 1, 2018.

New 20% Deduction For Qualifying Income

Overview. One of the most significant and far-reaching provisions under TCJA is the new provision that may allow certain individuals to qualify for a **20% Deduction** with respect to **"Qualified Business Income," "Qualified REIT Dividends,"** and **"Publically-Traded Partnership Income."** This deduction is available **for tax years beginning after 2017 through 2025.** The 20% Deduction does not reduce your adjusted gross income (AGI) or impact your calculation for self-employment tax. Instead, the deduction simply reduces your Taxable Income (regardless of whether you itemized deductions or claim the standard deduction). In other words, the 20% Deduction is allowed **in addition to** your itemized deductions or your standard deduction.

What Type Of Income Qualifies For The 20% Deduction? The following types of income are eligible for the 20% Deduction: Qualified REIT Dividends, Qualified Publically-Traded Partnership Income, and Qualified Business Income. The rules for determining the 20% Deduction for Qualified REIT Dividends and Publicly-Traded Partnership Income are relatively straight forward and, as expected, generally apply only to those who own an interest in a REIT or Publicly-Traded Partnership. However, the 20% Deduction for **"Qualified Business Income"** is expected to have the biggest impact on the greatest number of individual taxpayers, and in certain situations can be complicated and tricky.

Who Could Qualify For The 20% Deduction With Respect To "Qualified Business Income" (QBI)? Taxpayers who may qualify for the 20% Deduction for "Qualified Business Income" (QBI) generally include taxpayers who report certain types of business income as: Individual owners of S corporations and partnerships; Sole Proprietors; Trusts and Estates; and Certain beneficiaries of trusts and estates.

Planning Alert! It is not feasible to provide a thorough discussion of the 20% Deduction with respect to **Qualified Business Income (QBI)** in this letter. However, you need to be aware that if you own an interest in a business operation as a sole proprietor, as an S corporation shareholder, or as a partner in a partnership, you could very likely be a good candidate for the 20% Deduction for QBI. Moreover, although taxpayers at all income levels may qualify for the 20% Deduction, in certain situations it will be easier to qualify for the 20% Deduction for QBI for sole proprietors, S corporation shareholders, or partners in a partnership if their 2018 "Taxable Income" is $157,500 or below ($315,000 or below if filing joint return). Consequently, if you are in this situation, please call our Firm because you may have an additional tax incentive to defer taxable income and/or increase deductions that cause your **Taxable Income for 2018** to **drop below** the **$157,500** or **$315,000 thresholds.**

Expanded Write-Offs For Certain Capital Expenditures

100% First-Year 168(k) Bonus Depreciation Deduction. For the past several years, one of the most popular tax-favored deductions has been the 168(k) Bonus Depreciation deduction. Before TCJA, the 168(k) Deduction was equal to 50% of the cost of qualifying **new** depreciable assets placed-in-service. TCJA generally increased the 168(k) Bonus Depreciation deduction **to 100%** for qualifying property acquired and placed-in-service **after September 27, 2017** and **before January 1, 2023.** After 2022, the 100% deduction begins phasing out and phases out completely after 2026.

TCJA Expands 168(k) Bonus Depreciation To "Used" Property. Previously, only **"new"** qualifying property was eligible for the 168(k) Bonus Depreciation deduction. For qualifying property acquired and placed-in-service **after September 27, 2017 and before 2027,** TCJA allows the 168(k) Bonus Depreciation to be taken on **"new" or "used"** property. Therefore, under TCJA, property that generally qualifies for the 168(k) Bonus Depreciation includes **"new"** or **"used"** business property that has a depreciable life for tax purposes of **20 years or less** (e.g., machinery and equipment, furniture and fixtures, sidewalks, roads, landscaping, computers, computer software, farm

Continued on Page 12

buildings, and qualified motor fuels facilities). **Caution!** Although used property acquired and placed-in-service **after September 27, 2017 and before 2027** may qualify for the 168(k) Bonus Depreciation deduction, used property will not qualify if the taxpayer previously depreciated the property or acquired the property from certain parties related to the taxpayer.

Annual Depreciation Caps For Passenger Vehicles Increased. Vehicles used primarily in business generally qualify for the 168(k) Bonus Depreciation. However, there is a dollar cap imposed on business cars, and also on trucks, vans, and SUVs that have a **loaded vehicle weight of 6,000 lbs or less.** More specifically, these vehicles **acquired and placed-in-service in 2017** and used 100% for business were generally allowed **maximum depreciation of $3,160** ($3,560 for trucks and vans) **for 2017.** Also, these caps were increased by $8,000 if the vehicle otherwise qualified for the 168(k) Bonus Depreciation.

For qualifying vehicles placed-in-service **after 2017** and used 100% for business, TCJA increases the annual depreciation caps (without regard to the $8,000 increase) as follows: **1st year - $10,000** (up from $3,160 if placed-in-service in 2017); **2nd year - $16,000** (up from $5,100); **3rd year - $9,600** (up from $3,050); **fourth and subsequent years - $5,760** (up from $1,875). Moreover, if the vehicle (new or used) otherwise qualifies for the 168(k) Bonus Depreciation, the first year depreciation cap is increased by $8,000 (i.e., from $10,000 to $18,000). **Planning Alert!** Thus, a vehicle otherwise qualifying for the 168(k) Bonus Depreciation deduction with loaded **Gross Vehicle Weight (GVW) of 6,000 lbs or less** used **exclusively for business** and **placed-in-service in 2018** would be entitled to a **depreciation deduction for 2018 of up to $18,000,** whether purchased new or used. Even better, if the same new or used business vehicle (which is used 100% for business) has a loaded GVW **over 6,000 lbs, 100% of its cost** (without a dollar cap) could be deducted **in 2018** as a **168(k) Bonus Depreciation deduction.**

TCJA Expands The 179 Deduction. Another popular and frequently-used business tax break is the up-front Section 179 deduction ("179 Deduction"). Generally TCJA makes the following changes to the 179 Deduction:

Increased Caps. Effective for **property placed-in-service in tax years beginning after 2017,** TCJA **increases the 179 Deduction limitation** to **$1,000,000** (up from $510,000 for 2017) and increases the **phase-out threshold** to **$2,500,000** (up from $2,030,000 for 2017). These caps are to be indexed for inflation after 2018. Also, the current $25,000 cap for SUVs remains, but will be indexed for inflation beginning in 2019. **Planning Alert!** The $25,000 cap for SUVs applies only for purposes of the 179 deduction. This $25,000 cap **does not apply** with respect to the 100% 168(k) Bonus Depreciation deduction (discussed above) taken on SUVs!

Qualifying Property Generally Expanded. Generally, "depreciable" property qualifies for the **179 Deduction** if: **1)** It is purchased **new or used, 2)** It is "tangible personal" property, **and 3)** It is used primarily for business purposes (e.g., machinery and equipment, furniture and fixtures, business computers, etc.). Off-the-shelf business software also qualifies. **Planning Alert!** Prior law did not allow the 179 deduction for property used in **connection with lodging** (other than hotels, motels, etc.). **Effective for property placed-in-service in tax years beginning after 2017,** TCJA removes this restriction, so the 179 Deduction **is now allowed** for otherwise qualifying property used in connection with lodging (e.g., the cost of furnishing a home that the owner is renting to others would now qualify).

New Definition Of "Qualified Real Property." Before TCJA, property that qualified for the 179 Deduction also included **"Qualified Real Property"** (i.e., certain leasehold improvements to existing commercial buildings; certain costs of acquiring and/or improving restaurant buildings; and, certain costs of improving the interior of existing buildings used for retail sales). **Effective for property placed-in- service in tax years beginning after 2017,** TCJA changed the definition of **"Qualified Real Property"** (which qualifies for the 179 Deduction) to mean any of the following "improvements" to an existing commercial (i.e., nonresidential) building that are placed-in-service after the commercial building was first placed-in-service: **1) "Qualified Improvement Property"** (certain improvements to the interior of the commercial building), **2) Roofs, 3) Heating, Ventilation, and Air-Conditioning Property, 4) Fire Protection and Alarm Systems,** and **5) Security Systems. Tax Tip!** Determining whether a major repair to a building's roof should be capitalized or deducted immediately as a repair under the voluminous capitalization regulations, is not always an easy task. Since new roofs with respect to an existing commercial building may now qualify for the Section 179 deduction after 2017, in many situations the "capitalization vs. repair" issue relating to the replacement of roofs should largely be eliminated where the 179 limitations for the year are not exceeded.

Other Selected Miscellaneous Business Changes

Simplified Accounting For Certain Small Businesses. Generally effective for tax years beginning after 2017, TCJA provides the following accounting method relief for businesses with **Average Gross Receipts (AGRs)** for the **Preceding Three Tax Years** of **$25 Million or Less: 1)** Allows "C" corporations to use the cash method of accounting (before TCJA, a C corporation, other than a personal service C corporation, could use the cash method only if it had AGRs of $5 million or less), **2)** Generally allows a business to use the cash method even if the business has inventories, **3)** Generally allows simplified methods for accounting for inventories, **4)** Generally exempts businesses from applying UNICAP, and **5)** Liberalizes the availability of the completed-contract method. **Planning Alert!** The IRS has released detailed procedures to follow for taxpayers who qualify and wish to change their accounting methods in light of these new relief provisions. Please call our Firm if you think you may qualify, and we will provide you with additional details.

Repeal Of Deductions For Certain Entertainment, Amusement, And Recreation Activities. Effective for amounts paid or incurred after 2017, TCJA repeals all business deductions with respect to:

1) An activity generally considered to be entertainment, amusement or recreation, **2)** Membership dues with respect to any club organized for pleasure, recreation or other social purposes, or **3)** A facility or portion of a facility used in connection with either of the above. **Planning Alert!** Initially, some questioned whether this new provision also eliminated the current 50% deduction for business meals with customers or clients. Fortunately, the IRS recently announced that taxpayers can still generally deduct 50% of the cost a taxpayer incurs for meals with a business associate (i.e., a current or potential business customer, client, consultant, or similar business contact). In addition, the IRS stated that a taxpayer could deduct 50% of the cost of food and beverages provided during a nondeductible entertainment activity with a business associate provided the food and beverages are purchased separately from the entertainment, or the cost of the food and beverages is stated separately from the cost of the entertainment on one or more bills, invoices, or receipts.

Final Comments

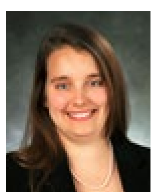
The **Tax Cuts And Jobs Act Of 2017** is mammoth in its scope and reach, and we have attempted to discuss only selected provisions that we believe will have the greatest impact on the largest number of our clients. If you have heard of a provision in TCJA that we did not address in this letter (or if you want additional information on a topic we did discuss), please contact us. In addition, please call us before implementing any planning ideas discussed in this letter, or if you need additional information. **Note!** The information contained in this material represents a general overview of selected provisions in the **Tax Cuts And Jobs Act Of 2017** and should not be relied upon without an independent, professional analysis of how any of the items discussed may apply to a specific situation.

Disclaimer: Any tax advice contained in the body of this material was not intended or written to be used, and cannot be used, by the recipient for the purpose of promoting, marketing, or recommending to another party any transaction or matter addressed herein. The preceding information is intended as a general discussion of the subject addressed and is not intended as a formal tax opinion. The recipient should not rely on any information contained herein without performing his or her own research verifying the conclusions reached. The conclusions reached should not be relied upon without an independent, professional analysis of the facts and law applicable to the situation.

New Team Members

Ruth Ann Holland is a member of our Admin Team. According to Ruth Ann, "Family is so important. I feel blessed to be a part of the CSB Team that feels like family, but strives to maintain the professionalism with heart so our clients know they will be taken care of."

Britney Lister is a member of our Admin Team. Britney graduated from Hendrix College with degrees in Economics and Business and Psychology. She has volunteered for various local charities, including Housing First and Light of the Village.

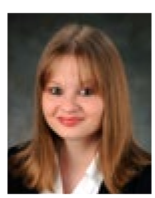


Kenny Crow, III is a Supervisor on our Audit Team. He is a graduate of The University of Alabama, and his specialties are audit services primarily in real estate, manufacturing and distribution, non-profits, and employee benefit services. Kenny spent six and a half years working in Birmingham, AL for the assurance practice of RSM US, LLP.

Marcia Cobb is one of our Accounting Service Associates. A graduate of Vincennes University, Marcia specializes in accounting support services for condominium associations. Fun fact: Marcia is a Junior Olympic Gold Medalist in quad indoor speed skating!

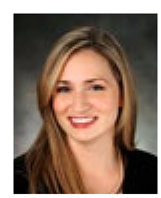
Roxanne Cameron, an Accounting Service Associate, is a graduate of University of West Florida and specializes in bookkeeping for condominium associations. Fun fact: Roxanne sang at the Sydney Opera House in a choral concert!

Allie Parker is a Staff Accountant on our Audit Team, and a graduate of The University of Alabama and The University of South Alabama. She is a member of Spring Hill Baptist Church and enjoys running, cooking, reading, and spending time with friends and family.



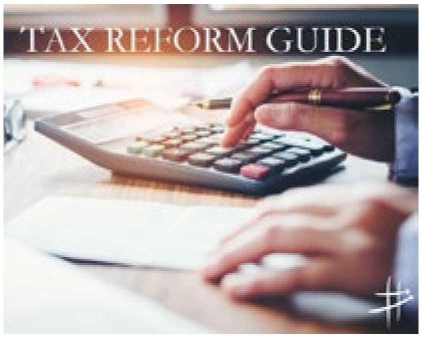
Kristen Gibson is an Administrative Services Associate. A graduate from The University of South Alabama, Kristen specializes in administrative services and data entry. Fun fact: Kristen has attended three Pensacola Comic Conventions.

Caitlyn Grimme is a Supervisor on our Audit Team. A graduate of The University of South Alabama, she specializes in audits of non-profit organizations, governmental entities, non-public service organizations, and construction. Caitlyn is married to Preston Grimme and mother to Stella. She is a member of the Alabama Society of Certified Public Accountants, the American Institute of Certified Public Accountants, Eastern Shore Young Professionals, a member of City Hope Church, and Daphne Elementary PTO. Caitlyn also has a love for history and has a separate Bachelor of Arts in History from the University of South Alabama, and was an Azalea Trail Maid during her senior year of high school!



Projecting Tax Reform

By Andrew Bailey



As many of you are well aware, tax law in the United States changed when the Tax Cuts and Jobs Act (TCJA) was signed into law in December 2017. The change was advertised to save taxpayers money and reduce the burden of filing taxes. However, if you do not do any planning before next April, you might end up with an unexpected tax bill and a headache. Now that we are nearing the end of 2018, below are some items to consider to see if there are any actions you need to take.

Review your Paystub

If you earn a paycheck, you may have noticed a little bump in pay back in February. As a result of the TCJA, most individual tax brackets decreased. Therefore, guidelines were issued to help implement employers with tax withholdings under the new law. However, employers are relying on withholding forms (W-4s) that were created under the old tax law. These forms ask employees to select a number of allowances to determine the amount of tax to withhold. The allowances were intended to be an indication of the amount of exemptions claimed on the taxpayer's individual tax return.

The new tax law repealed personal exemptions completely. They did expand the child and dependent tax credit and the standard deduction, but many Americans could still have a shortfall of tax withheld due to the old form W-4s. Our recommendation is to review your most recent paystub and see if you are having enough tax withheld. If not, contact your HR representative and update your withholdings now instead of having a surprise tax bill later.

Review Itemized Deductions

Under the TCJA, the standard deduction has increased from $6,350 to $12,000 for single taxpayers and $12,700 to $24,000 for married filing joint taxpayers. That change alone will limit the number of taxpayers who itemize their deductions.

The most widely discussed change to itemized deductions is the new cap on the state and local tax deduction (SALT). Under the TCJA, the SALT deduction cannot exceed a total of $10,000. If you're a taxpayer in a high income tax state or an area with high property taxes (or both), your SALT deduction may not look like it has in years past.

Another big change for our clients is the change to home equity line of credit (HELOC) interest. Under the TCJA, HELOC interest is no longer deductible. In addition, only the interest on $750,000 of mortgage debt is deductible for new mortgages taken out after December 14, 2017.

Some other changes I want to point out are the repeal of miscellaneous itemized deductions and the change to the charitable contribution for seating rights. Under the TCJA, you will no longer be allowed a deduction for "miscellaneous itemized deductions." These items were your unreimbursed employee expenses, tax preparation fees, investment advisor fees, etc. The TCJA also is not going to allow a charitable deduction for "seating rights". What this means is that you are no longer allowed a charitable contribution deduction for the donation you make to your favorite university in exchange for the rights to purchase season football tickets.

Business Owners Take Advantage of Change

So far, you might not see how the TCJA will benefit you outside of the lower individual tax brackets. However, if you are a business owner, now is a great time to review your tax and business plan. I'm sure you have heard in the media of the large corporations that are giving bonuses as a result of the TCJA. This is due in part of the corporate tax rate being lowered to 21%. However, a larger number of family-owned businesses are pass-through entities. This means the profits pass-through to the owners and the tax is paid at the individual level.

First off, pass-through business owners need to familiarize themselves with the new pass-through deduction. Pass-through businesses will now get a 20% deduction on the pass-through income since the corporate tax rate is now 21%. However, not every business will qualify, and some planning will need to be done to see if there is anything you can do to ensure you receive the full 20% deduction. This is probably the most complicated part of the TCJA, so we will save the details for another post, but go ahead and read a few articles so you understand the basics.

Another huge change for business owners is the expanded bonus depreciation and Section 179 expensing law. Many purchases of tangible personal property such as equipment, computers, and even some capital improvements are now 100% deductible in the year they are put in service. In addition, the TCJA is allowing businesses with average annual gross receipts of $25 million or less to use simplified accounting methods. Overall, the TCJA is encouraging business and capital investment in the United States.

These are just three areas of change under the TCJA. Much more has changed under the law, and we are working to guide our clients through all the change. If any of the topics previously discussed affect your personal situation or if you have question about the TCJA, give us a call. We would love to help you determine how the TCJA impacts you as an individual.

Tax Tidbits

F.I.C.A.Wages and Self-Employment Earnings

The amount of wages subject to FICA tax at 6.2% (12.4% if self-employed) for 2019 is $132,900 ($4,500 increase from 2018). The FICA-Medicare Tax of 1.45% (2.9% if self-employed) continues to apply to all wages and self-employment income.

Additional Medicare Tax Withholding

There is an additional .9% Medicare tax that employers must withhold on employee wages in excess of $200,000. There is no employer share.

Social Security Earnings Limit

There is a limit on how much you can earn and not affect your Social Security benefits, if you are under normal full retirement age. That limit for 2019 is $17,640. Earn more than this and your benefits are cut $1 for every $2 earned above the limit. The limit for 2018 was $17,040.

Standard Mileage Rates (Cents Per Mile)

	2018
Business	54.5
Charitable	14
Medical	18
Moving	18

Retirement Plan Limits

	2018	2019
IRA	$5,500	$6,000
IRA catch-up (age 50+)	1,000	1,000
SEP maximum contribution	55,000	56,000
401(k) 403(b) employee	18,500	19,000
401(k) 403(b) catch-up	6,000	6,000
Simple 408(p)(2)(E)	12,500	13,000
Simple 408(p)(2)(E) catch-up	3,000	3,000
Defined Contribution Limit	55,000	56,000
Annual Compensation Limit	275,000	280,000

Estate & Gift Tax Lifetime Exemption

2014	$5,340,000	(40% rate for amount over $5,340,000)
2015	$5,430,000	(40% rate for amount over $5,430,000)
2016	$5,450,000	(40% rate for amount over $5,450,000)
2017	$5,490,000	(40% rate for amount over $5,490,000)
2018	$11,180,000	(40% rate for amount over $11,180,000)
2019	$11,400,000	(40% rate for amount over $11,400,000)

Gift Tax Annual Exclusion

The gift tax annual exclusion for 2019 will be $15,000 per donee. There is no increase from 2018. The exclusion is $30,000 per donee for married couples that elect split gifting.

IRS Approved Per Diem Rates

As of 10/01/18 the "high" & "low" cost per diem allowances for 2019 are: Low cost of $60 for meals and incidentals, $135 for lodging, for a total of $195. High cost of $71 for meals and incidentals, $216 for lodging, for a total of $287.

Standard Deductions

	2018
Married Filing Joint	$24,000
Surviving Spouse	24,000
Head of Household	18,000
Single	12,000
Married Filing Separately	12,000
Dependent	1,050
Add if Blind/+65	1,300 – 1,600

Tax Tables

2018 Married Filing Joint And Surviving Spouses

Taxable Income

Over	But Not Over	Tax Is	+ % on Excess	Of The Amount Over
$0	$19,050	$0	10%	$0
19,051	77,400	1,905	12%	19,050
77,401	165,000	8,907	22%	77,400
165,001	315,000	28,179	24%	165,000
315,001	400,000	64,179	32%	315,000
400,001	600,000	91,379	35%	400,000
600,001	————	161,379	37%	600,000

2018 Single

Taxable Income

Over	But Not Over	Tax Is	+ % on Excess	Of The Amount Over
$0	$9,525	$0	10%	$0
9,526	38,700	953	12%	9,525
38,701	82,500	4,454	22%	38,700
82,501	157,500	14,090	24%	82,500
157,501	200,000	32,090	32%	157,500
200,001	500,000	45,690	35%	200,000
500,001	————	150,690	37%	500,000

Net Investment Income Tax

Net Investment Income Tax is an additional tax of 3.8% imposed on taxpayers earning more than established threshold amounts (see table below). The tax is in addition to any regular income taxes. The tax is calculated by multiplying the **3.8%** tax rate by the lower of:

1. net investment income for the year; or
2. modified adjusted gross income over a certain threshold amount.

1. Net Investment Income for the purposes of calculating the net investment income tax generally includes interest, dividends, capital gains, annuities, royalties, rents, and passthrough income from a business if you are a "passive" owner.

2. Modified Adjusted Gross Income thresholds for the net investment income tax are:

$250,000 for married filing joint filers and qualifying widows or widowers; $200,000 for single and head of household filers; and $125,000 for married filing separately filers.

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Mobile, AL 36609

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Daphne, AL 36526

Gulf Shores Office
121 Cove Avenue | P.O. Box 2405
Gulf Shores, AL 36547

Tax Tidbits *Continued from Page 15*

Capital Gains & Qualified Dividend Rates

2018 Married Filing Joint And Surviving Spouses

Taxable Income		
Over	But Not Over	Tax Rate
$0	$77,200	0 %
77,201	479,000	15
479,001	———	20

2018 Single

Taxable Income		
Over	But Not Over	Tax Rate
$0	$38,600	0 %
38,601	425,800	15
425,801	———	20