

# The Tax Route

financial information for the long haul

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McGowen, Hurst, Clark & Smith, P.C.





## Tax Reform

### More Changes on the Horizon: Iowa's Tax Reform Bill

On May 5, 2018, the Iowa Tax Reform Bill was passed by the Iowa House and Senate and Governor Kim Reynolds signed the bill into law on May 30th. This bill contains tax law changes that begin to impact the 2018 tax year and continue to change the tax law up to 2023, depending on whether certain tax revenue triggers are met at the state level. Below are some of the main highlights of the Iowa Tax Reform Bill.

#### Individuals:

- In 2019, the tax rates will be reduced changing the top rate to 8.53%. (See Table 1)
- Iowa individual income tax laws generally conform to federal tax code beginning in 2019.
- Iowa decouples from the Federal SALT deduction limit of \$10,000.
- The geothermal energy systems credits are eliminated effective January 1, 2019.
- The Research Activities Tax Credit are restricted by the types of eligible industries and requires the taxpayer to also claim the federal research tax credit for same research and same year.
- In 2023, subject to meeting the revenue triggers, the following will be implemented:
  - o Brackets will consolidate to a four-bracket system and larger rate reductions will be implemented reducing the top rate to 6.5%.
  - o The income tax starting point will shift to federal taxable income, fully incorporating federal itemized and standard deduction amounts.
  - o AMT will be eliminated.

Taxed Income Brackets		Current Law Tax	TY 2021
Lower Limit	Upper Limit	Rates	Rates
\$ 0	\$ 1,628	0.36%	0.33%
\$ 1,629	\$ 3,256	0.72%	0.67%
\$ 3,257	\$ 6,512	2.43%	2.25%
\$ 6,513	\$ 14,652	4.50%	4.14%
\$ 14,653	\$ 24,420	6.12%	5.63%
\$ 24,421	\$ 32,560	6.48%	5.96%
\$ 32,561	\$ 48,840	6.80%	6.25%
\$ 48,841	\$ 73,260	7.92%	7.44%
\$ 73,261	And Over	8.98%	8.53%

\*Estimated TY 2019 brackets. Iowa tax brackets are indexed annually for inflation.

- Iowa Corporate income tax rates decrease beginning in 2021 with the highest rate being 9.8%. (See Table 2)
- Corporate AMT will be eliminated in 2021.
- Section 179 increases the expense limit for small businesses to \$70,000 in 2018 with a \$280,000 phase-out and the deduction increases in 2019 to \$100,000 with a phase-out of \$400,000.
- Iowa will continue to decouple from federal bonus depreciation.
- In 2019, taxpayers will be allowed to deduct 25% of their federal qualified business income deduction from their Iowa taxable income. This percentage increases to 50% in 2021 and increases again in 2022 to 75%. If the revenue triggers are met in 2023, the deduction percentage will become 100% of the federal deduction.



## Tax Reform Continued...

- In 2018, Iowa will temporarily decouple from the Federal repeal of like-kind exchanges (also impacts individuals). Iowa will partially couple with the federal rules in 2019 and will completely couple in 2020.
  - MCH&S Commentary: Iowa decoupling from the Federal like-kind exchange rules will create some complications for trucking companies. If a like-kind exchange occurs, it is not optional on whether to defer the gain or not, so like-kind exchanges must be reported for Iowa purposes. In 2018, this will create two different treatments on the same asset with gain being recognized for federal purposes but gain excluded for Iowa
- Beginning in 2023, the Iowa capital gain deduction only will apply to net capital gain from the sale of real property used in a farming business if sold to lineal descendants or other certain relatives.
  - Note that this change will only occur if the two revenue triggers are met.

**Table 2 - Corporate Income Tax Rates**

Taxed Income Brackets		Current Law Tax	TY 2021
Lower Limit	Upper Limit	Rates	Rates
\$ 0	\$ 25,000	6.0%	5.5%
\$ 25,001	\$ 100,000	8.0%	5.5%
\$ 100,001	\$ 250,000	10.0%	9.0%
\$ 250,001	And Over	12.0%	9.8%

### Sales Tax:

- The sales tax base has widen to exclude sales tax on digital goods, ride sharing, and subscription services along with the full amount of hotel rooms and car rentals (including booking fees).
- Sales tax nexus will include economic nexus (activity to customers within a state) and click-through nexus (focuses on location of the computer purchasing rather than where the seller may be).

McGowen, Hurst, Clark, and Smith (MHC&S) will continue to analyze this bill to determine its impact on the trucking industry. The Iowa’s income tax changes along with the federal tax reform will be challenging for businesses, yet allow the opportunity for some beneficial tax planning opportunities. If you have any questions on how your business may be impacted, please contact us.

### Begin Planning for 2018 Taxes Now

Strategic tax planning is more important this year than it has been in decades due to tax reform with the Federal Tax Cuts and Job Acts along with the numerous states passing their own tax reform legislation. Having a tax strategy can not only lower the amount of taxable income, but it can also reduce the tax rate paid and control when taxes get paid. Tax planning should be seen as an opportunity to look at income over the next five to ten years to determine what the best method is to reduce the overall tax liability.

Now is the time to schedule a consultation with MHC&S. There is penalty of time left in the year to achieve the desired goals you and your business are seeking not only for the current year but for years to come. We will take a look at your overall financial history and determine how your entity will be impacted by the new tax reform rules. Our work does not stop with the impact on 2018’s taxes, we will offer various steps to make the tax reform changes work best for your business in future years.



## Breaking Down Tax Reform

### What Your Trucking Company Needs to Know

#### Driver's Per Diem – What's Changing?

The new Tax Cuts and Jobs Act (TCJA) limits miscellaneous itemized deductions for individuals. As a result, W-2 employees will no longer be able to deduct per diem amounts on their individual tax returns as they have in the past.

In order to understand these new changes, let's look at what the laws were prior to 2018 for deductions of per diem amounts.

Scenario 1: An individual, treated as a W-2 employee, was not reimbursed for travel expenses by the employer. As a result, the employee can claim a per diem amount on their individual tax return as a miscellaneous itemized deduction subject to a 2% threshold.

Scenario 2: An individual is treated as a W-2 employee and per diem was included in their taxable wages.

Scenario 3: An individual is an owner operator who receives a 1099-MISC and separately calculates the per diem and reports it as a deduction on their Schedule C or other business entity return.

In 2018, individuals who are treated as a W-2 employee will no longer be able to deduct their per diem as an unreimbursed business expense. In the past, for full-time drivers, the per diem was typically deductible to an extent as a 2% itemized deduction on their individual tax return. With the new tax reform bill, this deduction no longer exists, and drivers will not receive any tax deduction for per diem expenses.

Drivers may look to their employer for a change in pay structure to decrease the likelihood that their tax liability will increase beginning in 2018. That change would consist of an employee's compensation being split between taxable wages and per diem.

Drivers who are treated as a W-2 employee and their per diem is included as part of their compensation will not see a significant change due to the per diem. Owner-operators will also not be largely affected with the new change for per diem. The TCJA does address and change of deductibility of some meal and entertainment deductions but it does not affect the 80% deduction available to those in the transportation industry.

Beginning October 1st, 2018, the special transportation industry meal and incidental expenses (M&IE) rates have changed. The special M&IE rates for taxpayers in the

transportation industry are \$66 for any locality of travel in the continental United States and \$71 for any locality of travel outside the continental United States. Both rates are \$3 higher than they were last year. The updated rates are effective to September 30, 2019.

It is important for employers to be competitive with this new change in per diem deductibility. Consult with your tax advisor about possible changes in the way employees are paid.

#### Diesel Regeneration Excise Tax Update

As first reported in our March 2017 issue, there was controversy on an excise tax refund related to the mandated diesel regeneration units (diesel particulate filters) installed on tractors. It was argued these units should not be subject to excise tax since it does not contribute to the highway transportation function of the vehicle. On August 23, 2018, The Eighth Circuit Court of Appeals ruled that diesel regeneration units are considered "parts and accessories" on highway tractors and therefore are subject to excise tax.

#### Tax Reform Update

The IRS released highly anticipated proposed regulations addressing the Qualified Business Income (QBI) Deduction that allows for a 20 percent deduction for the income of qualifying sole proprietorships, partnerships, LLCs, and S corporations. The deduction for each trade or business cannot exceed the greater of:

- 50 percent of wages
- 25 percent of W-2 wages paid by the business plus 2.5 percent of the unadjusted basis immediately after acquisition (UBIA) of qualified property held for use in the trade or business

Specified service trades or businesses (SSTB) are ineligible for the pass-through deduction. More guidance was released in the regulations regarding what qualifies as a service trade or business. We anticipate many trucking companies to benefit from the QBI deduction on their 2018 tax returns.



## State Tax Alerts

### South Dakota

The Supreme Court ruled in favor of the state in *South Dakota v. Wayfair, Inc.* This ruling allows states to require businesses to collect and remit sales tax generated within a state where an entity may have no physical presence. While this decision has an immediate impact on online retailers in various states, it is also expected to greatly change the landscape of both sales and income taxation in the coming years for a variety of industries.

### New Jersey

We are continuing to see clients get penalized within the state of New Jersey for not being registered with the New Jersey Secretary of State. Best practice would be for the company to register if any trucks frequent the state. While this does trigger the need to file a New Jersey income tax return, it does avoid steep penalties if a truck is stopped and it is found to be unregistered.

### Kentucky

Kentucky enacted tax changes for tax years beginning on or after January 1, 2018. Changes include updating its Internal Revenue Code to reference December 31, 2017, single-factor sales apportionment and market-based sourcing, and a flat 5% corporate tax rate. Consolidated corporations must file a combined report or consolidated return for tax years beginning on or after January 1, 2019, which may create some limitations on tax credits and net operating losses.

### Maryland

Maryland's governor signed into law a bill enacting single-sales factor apportionment for c corporations. The single-sales factor will be phased-in over a five year period beginning with the 2018 tax year and will become a 100% sales factor state for the 2022 tax year.

### Colorado

The state of Colorado is changing to a market-based sourcing state for services and intangible property for tax years beginning on or after January 1, 2019. Market-based sourcing assigns revenues to Colorado when the service is delivered or the intangible property is sold, rented, leased, or licensed to use. Prior to this change, Colorado used the cost-of-performance rule for services and intangible property.

### Indiana

Indiana conforms with the Internal Revenue Code as of February 11, 2018. This conformity allows the state to align with the new changes of the Federal Tax cuts and Jobs Act passed in late 2017.

### Maine

Maine passed legislation to conform with the Internal Revenue Code in effect as of March 23, 2018. Maine retroactively applied the conformity to begin with years beginning on or after January 1, 2017. This conformity allows the state to align with the new changes of the Federal Tax cuts and Jobs Act passed in late 2017.

### Michigan

Michigan is changing the filing deadline for the state's income tax withholding statement and annual reconciliation return. The deadline is now January 31st instead of February 28th. The state also requires that entities who employ more than 250 employees file the state's annual return electronically.

### Vermont

Vermont is conforming to the Internal Revenue Code as of December 31, 2017. It is retroactively applying this change for taxable years beginning on or after January 1, 2017. For taxable years beginning on or after January 1, 2018, the state is implementing additional changes including lowering personal income tax rates and providing a personal exemption.

## Upcoming Event: Tax Reform Seminar

### Join us for a presentation where you will learn:

- Overview of 2018 Tax Reform
  - What is Qualified Business Income (QBI)
  - Understanding income phase outs and restrictions
  - Income generated from IRS Schedules C, E, and F, S-Corporations and LLCs
- QBI Analysis and Efficiency Strategies
  - Using 2018 Income to view "what if" strategies
  - Maximize value of QBI deduction with year-end

**Date:** Tuesday, November 13th, 2018

**Time:** 11:30 a.m. - Check in / Networking  
(Lunch provided with RSVP)

12:00 p.m. - Program Begins

12:45 p.m. - Program Q & A

1:00 pm.m - Closing

**Location:** Glen Oaks Country Club  
1401 Glen Oaks Drive  
West Des Moines, IA 50266

**RSVP by Nov. 6th by calling 515-288-3279 or emailing [info@mhcscpa.com](mailto:info@mhcscpa.com).**

Space is limited.



## About McGowen, Hurst, Clark & Smith, P.C.

McGowen, Hurst, Clark & Smith, P.C. is one of the oldest and largest local accounting firms in Central Iowa. Founded in 1946, we celebrate over 70 years of providing our clients with accounting, auditing and business consulting expertise. Over the years, our firm has grown from two to 72 employees, making us large enough to provide our clients with a broad base of experience and resources, yet small enough to offer very personalized service - which sets us apart from other CPA firms.

**Mission:** Providing outstanding, professional services while acting as proactive business partners with our clients. Providing a work environment that enables our firm members to achieve their personal and professional goals.

**Values:** Integrity. Excellence. Respect. Teamwork. Family. Fun.

## Our Trucking Team



### Dan Schwarz, CPA/ABV, Co-Managing Partner

Dan joined McGowen, Hurst, Clark & Smith in October 1990 as a member of the Business Advisory and Tax Service department. Dan specializes in our trucking and transportation niche and has expertise in business valuation, consulting and tax services. Dan is originally from Maynard, Iowa and earned an Associate of Applied Science degree from Hawkeye Institute of Technology. Dan is an Accredited Business Valuator (ABV). He is a member of the American Institute of Certified Public Accountants, the Iowa Society of Certified Public Accountants and CPAmerica International. He is also a board member of the Iowa Motor Truck Association Allied Division.



### Ashley Sly, CPA, Manager

Ashley joined McGowen, Hurst, Clark & Smith in September 2013. Prior to joining MHC&S in 2013, she had three years of experience at a national accounting firm and one year at a large law firm. Ashley is experienced in tax, providing expertise for small to mid-size businesses, especially those with a multi-state presence and in the industries of transportation, manufacturing and distribution. Ashley is originally from Round Lake, Minnesota and received her Bachelor of Arts with a double major in Accounting and Finance at Buena Vista University. Ashley is a member of the American Institute of Certified Public Accountants, CPAmerica International, and the Iowa Society of Certified Public Accountants, where she currently chairs the young professionals committee, LEAP. She is the current treasurer of the West Des Moines' Library Friends Foundation and a past graduate of the West Des Moines Leadership Academy.



### Liz Krause, CPA, Supervisor

Liz joined McGowen, Hurst, Clark & Smith in June 2016 after coming from a regional firm where she worked for 4 years. She specializes in tax for closely held businesses, as well as state and local tax issues. Liz is originally from Carroll, Iowa and attended Creighton University, where she received bachelor degrees in accounting and financial planning. Liz is a member of the American Institute of Certified Public Accountants, the Iowa Society of Certified Public Accountants and CPAmerica International. She is involved with the Johnston Chamber of Commerce and firm-wide community and service events. Outside of work, Liz enjoys crafting, cooking, and spending time with her husband and son.

## In Trucking Territory this Quarter...

- On May 24, **Dan Schwarz**, **Ashley Sly**, and **Liz Krause** attended the IMTA Golf Outing at Legacy Golf Course in Norwalk.
- **Ashley Sly** attended the IMTA Ambassadors Program on May 31st.
- **Dan Schwarz** and **Ashley Sly** attended the ABI Conference June 5th – 7th in Coralville, IA.
- **Dan Schwarz**, **Liz Krause**, and **Ashley Sly** attended the IMTA Management Conference in Coralville, IA on September 5th and 6th.

