



MARTIN·SMITH

& COMPANY CPAs

January 2020

Dear Client,

One year ago, we were all wondering how the Tax Cuts and Jobs Act (“TCJA”) would affect each of our specific tax situations. Overall, as preparers we saw a decrease (and in some cases a significant decrease) in 2018 income taxes. For tax preparers it was one of the most challenging tax seasons in many years. Although the legislation was signed into law on December 22, 2017, it wasn't until 13 months later in January 2019 that the IRS gave us the guidance that we needed to apply one of the more pervasive aspects of the TCJA. As we look forward to the upcoming tax season, there are significantly fewer changes. Here are a few of them:

- **Alimony:** One very significant change that came into effect January 1, 2019, is the treatment of alimony. Beginning with divorces and separation agreements entered into after December 31, 2018, alimony or separate maintenance payments are no longer deductible by the payor, nor includible in the income of the payee. This change does not affect divorce or separation agreements entered into before 2019, nor those altered after 2018 where the changed method of taxation is not expressly stated to apply.
- **IRA changes:** Beginning in 2020, the start date for required minimum distributions changes from age 70½ to 72. Also, the age limit of 70½ has been eliminated to now allow all taxpayers to contribute to an IRA.
- **Health insurance:** For 2019, the individual mandate (“penalty”) is effectively repealed because the penalty amount is now zero for each month the taxpayer did not have “minimum essential coverage”.

As tax preparers, we continue to have more responsibilities placed on us by the IRS to perform due diligence for those taxpayers who receive the earned income tax credit, various education tax credits, child tax credits, or are claiming head of household filing status. The IRS can penalize us over \$500 for each occurrence of non-compliance. If you qualify for any of these tax credits, we will be contacting you in order to obtain more specific information so that we may comply with these mandates.

For South Carolina residents, the State continues to offer a Refundable Motor Fuel Income Tax Credit to offset the motor fuel user fee increase. The motor fuel user fee is charged on a per gallon basis, so the credit is also based on a per gallon basis. To claim the credit on your 2019 SC return, you must have receipts and invoices for January - December 2019 from:

- Fuel purchases within South Carolina for each vehicle
- Vehicle preventative maintenance costs for each vehicle

The credit for 2019 will be 5 cents per gallon and will increase each year by 2 cents through 2022. For example, in 2019 the credit for 1,000 gallons will be \$38. You must have records for gallons purchased and vehicle maintenance expenses separately stated for each vehicle. Each taxpayer can claim the credit for up to two vehicles. Due to the amount of information needed, please go to our website at www.martinsmithcpas.com/newsletters.html and download one of the versions of Form I-385 and then fill it out completely and provide it to us with your other tax documents. **Please do not give us your receipts.** If you want to claim the credit for 2020, continue saving your gas and car maintenance receipts during 2020. **IMPORTANT** – keep the receipts and invoices for each vehicle separate. There is a cap of \$65 million in credits that SCDOR will issue for the 2019 tax year. Once this cap is reached, no more credits will be issued for this tax year.

Over the past five years we have faced an average software cost increase of over 13% per year. Historically our firm has strived to have reasonable tax preparation fees, although we realize that this is somewhat subjective. Our assessment of our fee structure reveals that our fees are at or below what some of the national tax prep companies, and what other CPA firms in the Greenville area, are charging. Accordingly, you may see your tax preparation fee increase 10-25% this year. Also, our new minimum fee will be \$125 for all dependent children and taxpayers with only a W-2. Your understanding is appreciated as we seek to provide professional tax preparation services utilizing exceptional software.

We look forward to serving you this year!

Sincerely yours,

MARTIN SMITH & COMPANY CPAs, PA