Aginian Accounting Corp.
CERTIFIED PUBLIC ACCOUNTANT

Dear Client:

We hope that 2018 has been a happy and prosperous year for you and your family. It's been an interesting year with many important tax changes that will impact you. Our firm has spent a great amount of time and resources staying on top of massive volume of new laws and forms. As such, tax preparation fees across our entire industry are increasing and our firm is no different. Our fee increase will be commensurate with the amount and types of tax law changes that affect you.

"Tax Cut and Job Act" was passed Congress on December 20, 2017 and took effect in 2018. It is the most comprehensive tax law change in more than 30 years and all taxpayers will see major changes in their tax returns this year. Each person's tax situation is unique under the new law, but we can give you some broad details. While coverage of all aspects of the TCJA is beyond the scope of this letter here are a few tax provisions that may affect the most taxpayers:

- The three main items affecting most of us are: (1) the Schedule A – Itemized deduction the total State tax deductions including the state income tax, real estate and personal property tax is limited to $10,000 total; (2) employee business expenses and investment expenses are no longer deductible; and (3) the standard deduction is increased to $12,000 Single, $24,000 Married.

- A big "however" is that the new law is for Federal taxes only. States taxes generally do not conform to these changes. In other words, we will need all of the same information and documents we requested for 2017 taxes because the state income tax will use old law and Federal taxes will use new law for your 2018 tax return.

- Some taxpayers will pay less tax, but due to problems with the IRS's published withholding tables, many taxpayers will be under-withheld on their paychecks.

- New individual and corporate tax rates; increase standard deduction; increase child tax credit; suspension of home equity debt interest; increase in AMT exemption; no deduction for alimony payments; mortgage interest limited to acquired debt of $750,000; suspension of personal casualty and theft losses; doubling of exemption for estate tax; increase in IRC Sec. 179 expense to 1,000,000 and more.

- **Businesses** - There is a new 20% Qualified Business Income (QBI) deduction for certain businesses beginning for 2018. The rules and calculations are quite complex, and again, each situation is different. This pertains to Sole Proprietors, S-corporations, LLCs and Partnerships (not C-corporations). This deduction will be extremely valuable for those who qualify for it.

  Two things to keep in mind for the QBI deduction:

- If Net Taxable Income (Earned Income plus Investment Income, Rental Income, taxable Social Security, etc. less Itemized Deductions) is more than $157,500 Single and $315,000 Married, then additional factors come into play to qualify for the 20% QBI deduction.

- If your business is in the field of health, law, accounting, performing arts, consulting, athletics, financial services or brokerage, once you go over the limits you do not get a QBI deduction.

Identity theft: Tax refund fraud and identity theft are an increasing problem.

- Please remember that the IRS does not call you about collection or balances due. In fact, the IRS will generally only call if you are working with an employee on an audit or other issue. If you get one of these calls, hang up immediately.

Property transactions: Did you sell any real estate this year? Be sure to provide copies of escrow statements, as well as the Loan Estimate form, the Closing Disclosure form, and California Form 593, Real Estate Withholding Tax Statement. We need these documents to properly prepare your return. If you can get them to us as early as possible, we can make sure we have everything we need, and that any state withholding documentation is correct.

Bitcoin and other virtual currencies: With the rapid fluctuation in value of virtual currencies and the recent ability to trade Bitcoin futures, the IRS is placing special scrutiny on these transactions. Please advice whether you have bought, sold, sent, or received any virtual currencies in the last few years.

1099s and K-1s: If you received 1099s or K-1s from investments in 2018, we may extend your return in case these documents are corrected after the original filing deadline. We are seeing increasing numbers of corrected information returns, which require taxpayers to amend their original tax returns to reflect the corrected amounts. In some cases, the amounts are vastly different and can create additional costs in amending the tax returns and potential penalty problems.

Foreign accounts: We must report overseas assets owned by businesses as well as individuals. So, the reporting requirements are increasing and the penalties for failure to report continue to be harsh

Remember tax return due date changes: Beginning two years ago, for federal and California tax purposes, the due dates for partnership and C corporation returns changed. Please remember the new return due dates:

- Partnerships must file returns by the 15th day of the third month following the close of the taxable year (March 15 for calendar-year taxpayers);
- C corporation returns are generally due by the 15th day of the fourth month following the close of the taxable year (April 15 for calendar-year taxpayers);
- S corporation returns will remain due by the 15th day of the third month of the taxable year (March 15 for calendar-year taxpayers); and
- W-2s and 1099s must be filed by January 31, 2019, for the 2018 year.

During this holiday season, besides counting our blessings and saying thank you, we also wanted to take the time to wish all of you a very prosperous New Year. We would like to express how much we appreciate your valued trust and confidence placed in our office.

With warmest regards,

Aram Aginian, CPA

P.S. Let's try to file your return as early as possible so you can get your refund quickly!