The Solari Report

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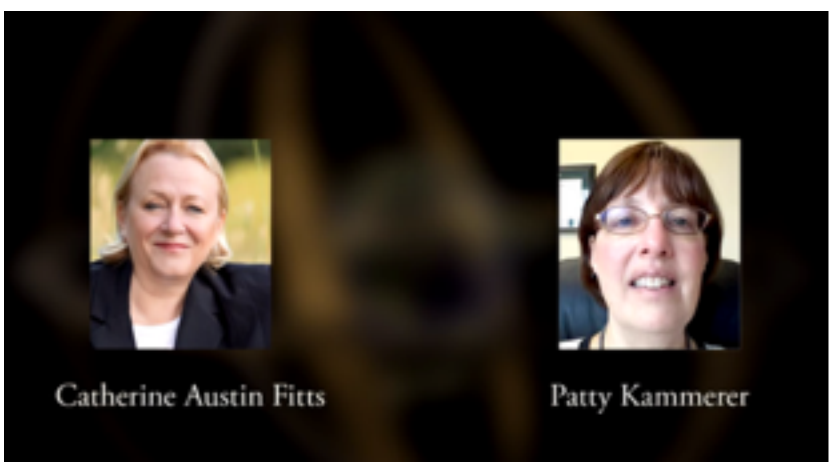
Year-End Tax Planning 2017 with Patty Kemmerer



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C. Austin Fitts: Ladies and gentlemen, it's a pleasure to welcome back to The Solari Report a CPA who has joined us for several years now, Patty Kemmerer from Kemmerer and Schooley, CPAs in Northern Virginia.

Among many other accomplishments, she's been Solari's CPA for many, many years. I always want to have her on The Solari Report because her combination of integrity and breadth of knowledge and experience is wonderful to have in your life. I can't recommend her highly enough.

Patty, what an exciting time to be a CPA! Welcome.

Patty Kemmerer: It really is. Thank you for that excellent introduction.

Yes, the phone has been ringing quite a bit. People are asking, "What do we do now?"

Fitts: And, of course, you can't say because there are significant differences between the House and Senate bill, and they are just now going to reconciliations. It makes it wildly complicated.

Let's look at the current law. I want to make sure that people focus on what they should be doing before the end of the year. Current law really drives that. As you said, there were changes in 2017. So why don't you dive in and help us walk through what we need to think about to prepare for being ready to close out the year and being prepared for 2017 taxes?

Kemmerer: There weren't many changes in 2017 from 2016 law, but I did want to mention a few items for people to be aware of and to think about. One is that the medical expense deduction for taxpayers who are 65 and over has increased to 10% of adjusted gross income (AGI). During the last two years it was capped at 7.5% of AGI for seniors when everyone else went up to 10%.

For 2017, the persons 65 and older have caught up, and their medical expense deduction has to exceed 10% of AGI before any of it becomes deductible. So that is one change for 2017 I thought that people should be aware of. Also, the phase-out of the Roth and traditional IRA contributions have risen slightly. So that will allow a few more people to take advantage of the tax benefits for those particular retirements vehicles. The traditional IRA phase-out range has gone up $1,000 and phases out for single taxpayers between $62,000 and $72,000, and for married filing jointly it's between $99,000 and $119,000.

The Roth IRA phase-out range rose $1,000 to $118,000 to $133,000 for singles and rose $2,000 for married filing jointly, and that has gone up to a phase-out range of $186,000 to $196,000. So that will allow a few more people to take advantage of those tax benefits for a Roth IRA and a traditional.

Fitts: To put money in for the 2017 tax year, when do they need to fund those?

Kemmerer: Those need to be funded by April 15th of 2018. Even if you file an extension, there is no extension for making those contributions. So those must be made by April 15th of 2018. That means that they have to be in the account by that date.

Another thing to note is that itemized deductions for mortgage insurance premiums are no longer allowed on the Schedule A, also – and this is a biggie – mortgage debt forgiveness deduction of up to $2 million is no longer available.

Fitts: When did that phase out?

Kemmerer: This year. It's gone. I know that at least in my area people still have short sales and foreclosures. That can hurt, but there is always the option of showing insolvency if that's the case, and even being able to avoid paying tax on any forgiven mortgage debt if a person is insolvent. So that is always an option available, but the law that said the debt forgiveness for mortgage interest has been phased out.

Also, the tuition and fees deduction is no longer allowed. There was an option for taking the deduction instead of the American Opportunity Credit or the Lifetime Learning Credit, but that is also gone. So only the American Opportunity or Lifetime Learning Credits are available. They are still available, but the tuition and fees deduction is gone.

One other item to note is the standard mileage rate for people who use their vehicles for business, moving, medical, or charitable purposes have gone down with the reduction in the price of gasoline. The new standard for business is $0.535, $0.17 for moving and medical miles, and $0.14 for charitable miles. Prompting this was the lower gas prices.

What I also wanted to let people know is that there are other options for retirement plans if you are in a business that you can yet do for 2017. You can still set up a Solo 401k for 2017 as long as it's set up by the end of the year. That is for people who are sole proprietors or single-member LLCs or in a small S corporation where only the owner and possibly the spouse are the employees.

If you have other employees, you have to do a regular 401k, and that had to be opened by October 1st. So it's too late for that, but it's not too late for the Solo 401k. They do have to be opened by the end of the year. Deferred contributions can be made up to the greater of gross wages or $18,000 – whichever is larger. It can be $24,000 if the person is 50 or older, and the employer can match up to 25% of the wages or the net self-employment income. That is one vehicle that is available for small business owners.

There is also a SEP, a Self-Employed Pension, which can be opened as late as next year's filing deadline, including extensions. So, SEP could be open up until October of next year for 2017, and 25% of wages or 20% of net self-employment income can be contributed. It must be in the account by the filing deadline of the tax return, including extensions.

Fitts: Those are the changes under current law. Before year-end, what are the things that everybody should do? What is on the checklist to take care of, think about, or make sure you are prepared for by the end of the year?

Kemmerer: One of the things that we can jump into is the bills that were passed. As you know, they are in conference right now trying to iron out the differences between the House and the Senate bills. So we don't have the final bills.

One big item that they agree on in both bills is the repeal of the state and local income tax deduction. While there is a great deal of lobbying, I'm sure, happening regarding this matter, I don't expect it to be changed. It's probably going to go away.

People who are self-employed in particular – or anyone for that matter – making quarterly estimated state income tax payments, most of them are due January 15th of 2018, the 4th quarter. I would advise anyone who is making these payments to carry out their 4th quarter payment by December 31st of this year so that they can get the deduction. If they wait until January 15th of 2018, they will lose the deduction for that 4th quarter payment.

Fitts: Wow! Oh my God! I hadn't thought of that!

Kemmerer: Yes, they will definitely lose it. So you need to make that payment. It's only two weeks early if you pay it by December 31st, but you will lose the deduction for it if you don't pay it this year.

That's a big item. I think that because they completely agree on that, that it is doubtful they are going to change that in the upcoming legislation. So that is one recommendation.

I'll talk about a couple more as we go through the list of changes and what the differences are. If you're ready, we'll get started on the 2018 tax changes.

Fitts: There are two things that I want to mention for 2017 because they are things that we have beat the drums on. I had two attorneys who we work with do a special report on tax treatment for cryptocurrencies. I became very concerned by the 3rd quarter that we had people making and trading in cryptocurrencies and thinking that they didn't have to pay taxes.

For those of you who are investing in Bitcoin or any of the other cryptocurrencies, please see that discussion at Solari because you are subject to taxation. If anybody thought they weren't; I don't know if you saw that the IRS won their case regarding requiring one of the big exchanges to turn over their databases concerning transactions and holders to them.

The second thing is that we have written almost every year something to help people with their FBAR filings for foreign accounts. I keep beating the drum, but I would notice that Mueller's first indictment included an indictment against Paul Manafort for failing to file his FBAR form.

It gave me an opportunity to say, "You must file your FBAR form." So, I wanted to bring those two things up because they are certainly current law, but they are both items that touch our subscribers, and there is a great deal of information on the FBAR in the special report on cryptocurrencies.

I doubt that you've ever seen a prosecution of an FBAR case other than Paul Manafort. I'm sure that one exists, but I haven't seen it.

Kemmerer: Don't forget that the FBARs used to be due on June 30th, and starting in 2016 they moved that date up to April 15th. So that's just a reminder on that as well. They are now due on April 15th, but you can extend it.

Fitts: If you file an extension, you can file your FBAR with your final paperwork? So you can file in October?

Kemmerer: That is correct.

Fitts: Let's dive into the changes. Take us away and lead us through.

Kemmerer: I will. Obviously, I can't touch on all of them, but I'm going to mention quite a few of the ones that have come to light that are most significant. One of the first ones is the tax brackets.

The House bill has reduced the current law's seven brackets down to four. The Senate bill still has seven, but they are all slightly lower than the current seven. The 35% bracket is still there, but it's on a different scale of income. They have to reconcile these brackets, and I don't have any feel for how this is going to shake out.

The House bill, while it only has four brackets, has this thing called a 'bubble rate' which effectively could take the rate up to about 45.6%. The bubble rate includes the 3.8 additional Medicare tax and surcharges. There is a 6% 'clawback' of the 12% rate.

What that does is it says that the lowest rate is 12%, but once you get to a certain income level, then you have to add back to that 12% rate. They won't let you have it in that lower income bracket anymore. This affects married couples with taxable income between $1.2 million and $1.6 million.

If any of your listeners are in that bracket, there is a potential for a top rate of 45.6% marginal rate. The Senate bill does not have that; it's capped at 38.5%. Our current highest rate is 39.6%, so it's slightly lower. I don't know how they are going to work this out. As long as your listeners are aware that there is a very big difference between the two bills in this area.

Now we will jump to the standard deduction. They are in complete agreement on this particular item, and the standard deduction will jump to $12,000 for singles and $24,000 for marrieds. That appears to be great because right now the single rate is $6,350 and the married rate is $12,700.

So, this seems great, but what the listeners need to know is that they are eliminating the personal exemptions because they are giving this higher standard deduction.

The reality is that under the old rules, a married filing jointly couple with one child gets $12,700 standard deduction plus three personal exemptions of $4,050 each, which totals $24,850. So, the reality is that if you have one child and you're taking the standard deduction, you are losing $850 of deduction under this new law. If you have more than one child, you're actually losing on this.

However, they have also increased the child tax credit as a way to try to make up for this issue. Under the House bill, it's a $1,600 credit per child and currently, it's at $1,000. Under the Senate bill, it's $2,000 credit per child. So, they are trying to make up a bit for this discrepancy with taking away the personal exemptions. We'll see how it all shakes out, and we'll see how they reconcile this in conference.

Also, each bill gives credit for a non-child dependent, which was not in current law at all. So if you have a dependent parent, for example, under the House bill you could have a $300 credit for each parent or other non-child dependent and a $500 credit under the Senate bill for a parent or other non-child dependent. In addition, they are allowing the phase-out of these credits to be much higher.

Right now, the child tax credit phases out at $110,000 for married filing jointly. Under the House bill that increases to $230,000 and under the Senate bill, it's $500,000.

So more people will be able to take advantage of the child tax credit in the higher brackets. Thus, they will be making up for the lack of personal exemptions to some degree, but in my opinion, it's still going to be less of a deduction if you are not itemizing.

Even if you are itemizing, you lose the personal exemptions. So that's somewhat of a decrease in deductions.

Now we've touched on the state and local tax issue and making the 4th quarter estimates in this year, but both bills are also capping the property tax deductions. They are still allowing it, but capping it at $10,000. They agree on that, so I don't see any change happening on that part of the bill.

So now let's talk about corporate tax rates and pass-through tax treatment. If you have a C corporation, your rate will go down from 35% to 20% under both bills, which is excellent news. The difference is that the House bill is ready to do this immediately in 2018, but the Senate postpones the reduction to 2019. So we'll see how they are going to reconcile those two discrepancies and whether it's going to be a 2018 change or a 2019 change.

Then we have the pass-through entities like S corporations and partnerships, and there are also single member LLCs and sole proprietorships. Under the House bill, the maximum rate is going to be capped at 25%. However, the House only allows 30% of your pass-through income to be taxed at that rate. The remainder is going to be taxed as ordinary income.

The reason for this is because they don't want people shifting from wage income or income that is a result of your efforts under a proprietorship or a single member LLC to be taxed at the lower rate. So, they are only going to allow 30% to be taxed at the lower rate, and the balance is going to be taxed at the ordinary income rates.

Under the Senate bill, they are going to allow a 23% deduction off the pass-through income. Basically, simply chop 23% off and pay tax on the balance at your regular ordinary income rates, and there is no other preferential rate involved.

Fitts: Senator Johnson balked and was holding up the whole process for the concern that the C corporations were advantaged tremendously against the single member LLCs and pass-throughs.

It appears to me, for somebody who has a very active business, it makes tremendous sense to shift to a C corporation. Is that correct?

Kemmerer: I haven't had much time, unfortunately, to study this. It seems that the corporate tax rate is going to be lower than the individual rate. But at some point, if you want to take the money out of the corporation, you either have to receive the money as a dividend, which is going to be taxed as ordinary income, or take it out as wages, which is going to be taxed as ordinary income.

So the double taxation is still there. It doesn't appear like it's going to be a great deal, but we will see how it all shakes out.

Then in an effort to assist in growing the economy, they are talking about the expensing rules for new equipment. So right now, under the house bill, they are going to allow five years of expensing for new equipment. Period. That is the new rule that you can expense it.

Fitts: So you're depreciating over a five-year period?

Kemmerer: You can expense it in the first year.

Fitts: For the next five years, right?

Kemmerer: For the next five years, right. I did not make that clear.

Under the Senate bill, they also have five years of expensing of new equipment, but under that bill, their rule will phase out after year five. They are also going to allow shorter depreciation for real property – and I don't know how long that is going to be. Under the House bill, there is no difference in the depreciation of real property. We'll see how they compromise on that particular distinction in their expensing rules.

Let's jump to the international tax. I'm only going to touch on this briefly. Under the current tax rules, worldwide corporate profits being taxed may be deferred minus the taxes paid in a foreign country. So if you're paying taxes on the same income in a foreign country, you don't have to pay double tax in the US on that same income. But under both the House and the Senate bill, they are moving towards a territorial system that only taxes domestic profits.

They will impose a 10% tax on international profits and a 20% excise tax on certain transactions with foreign subsidiaries of domestic corporations.

This is a very complex area, and I haven't had much time to study their bills on this. We will have to wait and see how this shakes out. If you have listeners who are in this situation, I recommend that you continue to watch this area and speak with your accountant once the bills have been finalized so that you know what is coming.

Also, there is going to be a repatriation tax. What that means is that there is a great deal of – as I mentioned before – tax on corporate profits that will be deferred. They want to repatriate these, and they are going to have a tax of 14% on liquid assets and 7% on physical assets under the House Bill. It's 14.49% on liquid assets and 7.49% on physical assets.

Basically, they are going to say that you can't defer this any longer, and are going to hit you with a tax on this.

Fitts: I thought that they were going to offer a repatriation opportunity, but what you are saying is that "No", they are going to tax that money whether it comes back or not.

Kemmerer: Exactly. But a company can elect to pay the tax in equal installments over an eight-year period. So you don't have to pay it all upfront, but it will be taxed upfront. There is an election that can be made to pay it in installments over eight years.

Fitts: If you look at the cash that US corporations are holding abroad, it's about $2.5 trillion now. So, we are talking about 'a lot' of money.

Kemmerer: Yes, we are talking about 'a lot' of money.

We'll see how they iron out the differences in the rates, but it appears that they certainly agree on the repatriation.

Fitts: This is the Apple tax; whether Apple brings that money back or not, they are going to tax it.

Kemmerer: That's the way that it appears to me.

Let's jump quickly to the Obamacare tax changes. Under the House bill, there is no change. The 3.8% net investment income tax will continue to be tax law under both. For single persons with income over $200,000 or married filing jointly over $250,000, there is an additional 3.8% tax on net investment income, and this includes interest, dividends, and capital gains. So if you're in that income bracket and you have interest dividends or capital gains, you will pay an additional 3.8% on those.

Under the Senate bill, they are going to repeal the individual mandate, which means that you're not going to be required to have health insurance. If you don't have it, then you will pay a penalty under the House bill; that still exists. Under the Senate bill, they are trying to get rid of that. We will see how they compromise on this particular point.

Fitts: So that could impact people's estimated filings in January.

Kemmerer: Definitely. So we are just going to have to keep an eye on this one.

I was hoping that the net investment income tax was going to go away, but it doesn't appear that it is going to at this point. Also, there is a 0.9% Medicare payroll tax for persons who are single earning over $200,000 and married filing jointly over $250,000. That is still going to be in place under both bills. So, we have the 3.8% on investment income tax and the 0.9% Medicare payroll tax that is still going to be there.

The estate tax is pretty exciting. Right now the law is 40% tax on assets over $5.49 million per person in the year of death. Under the House bill, they immediately double that exclusion from $5.49 million to $10.98 million. That will be repealed entirely under the House bill after 2024. So, it immediately doubles the exclusion and repeals the tax entirely after 2024.

Fitts: So essentially in six years under the House bill there is no estate tax?

Kemmerer: Correct.

Fitts: It's phased out within six years.

Kemmerer: Under the Senate bill they immediately double the exclusion to $10.98 million, but they do not repeal the tax. So that is the difference. They both double the exclusion, but the House bill repeals the tax after 2024. The Senate bill does not repeal the tax. So we will see how they compromise on that particular issue.

Fitts: That one is of particular interest to me because if you look at the politics; I was in Asia earlier this year. One thing, in talking with a variety of people in Hong Kong and, oddly enough, Bangladesh, was that the US had done a great deal to make themselves much more attractive to foreign investment and create the US as the offshore haven of choice. One of the most significant obstacles to that is the estate tax. People are afraid to move money or themselves here with that estate tax, particularly from areas that don't have one or have one that is much lower. That is a real obstacle.

The other thing is that you have throughout the baby boomer generation – and this is very much in Republican strongholds –families who have spent their entire lives with farms or local businesses, and are going to pay a whopper inflation tax as a result of having businesses that have a low basis. There is much pressure to protect them from that. But in the meantime, if you try to do those two things, you end up with something that has terrible political spin coming into 2018.

I'm going to find it fascinating to see how they reconcile that in the next two weeks. Nevertheless, you are right; this one is essential.

Kemmerer: It is crucial. Two weeks is a short time for them to iron out all of these differences. As you can see from what I've talked about so far, there is quite a discrepancy in some of these areas that they are going to have to agree on.

Keep watching. There are plenty of news sources out there that you can continue to check to see how things are going. They are reporting on a daily basis of how this is progressing.

Of course, the accounting community is quite riveted by all of this.

Fitts: It's going to be an interesting Christmas.

Kemmerer: It is.

Fitts: Can I talk about education for a moment? I've tried to find useful information about what is in both bills, and it's not clear exactly what they are up to and how it gets reconciled. This is one, in my opinion, is very worrisome. If they harm the interest deduction or the tuition waiver for graduate students, it's going to be extremely painful for people least able to effectively deal with that pain.

I would like to know if you have any thoughts on what is going to happen there.

Kemmerer: I have no idea. This is one of those things where it's not clear how they are going to move forward on this.

The one thing that I did think that was very interesting is they are expanding the 529 savings plans to include K-12 expenses.

Fitts: I didn't realize that.

Kemmerer: I thought that was quite interesting. They both agree on that.

Fitts: It's ironic because one thing I'm just a Johnny-one-note about, particularly at Christmas time, and I even do this with my hairdresser, is I make everybody open 529 accounts and then tell all their relatives, "At Christmas and on birthdays, put money in the 529. Don't buy many toys; just keep putting money in the 529."

If you get all your family and friends trained to do that every year, by the time your child is ready to go to college, it can be a tremendous amount of money because it grows.

Kemmerer: It does. With adding the K-12 expenses in here, that also allows for more people, perhaps, to put their children into private schools if they desire to do that.

Fitts: So at Christmas, we could all fund into the 529, and then they could use it on current education. Is it simply tuition, or is it beyond that?

Kemmerer: I don't know. Right now, it includes room and board and all of that. I don't know if it's going to include boarding schools for the lower grades. It's not clear just yet.

Fitts: That is one that we need to follow.

Could you touch on what the gifting rules are for 2017? Because of the holidays, there is plenty of consideration for gifting to grandchildren and children and siblings and other people. What are the gifting rules?

Kemmerer: The gifting rules are that you can gift up to $14,000 per year under current law to anyone and not have to report it on a gift tax return. Once it exceeds $14,000, the person who gives the gift has to report the gift on a gift tax return. It is not income to the person who receives the gift. This is a misconception that I hear all the time. "If I give a gift, then they are going to have to claim it as income." No. They do not have to claim it as income, but you as the person who gives the gift, do have to report it. The reason for that is because it comes off of the estate exclusion when you pass away.

If you gift your estate during your lifetime, then you can't exclude the entire $5.49 million, or if the law changes, $10.98 million, if you've given it away while you're alive. So, it comes off that number, and it lowers that exclusion at the end of the day. So that is the complete purpose of the gift tax return. Many people get freaked out on this, and it's nothing to get freaked out about.

It used to be, even a few years ago, that you could only gift up to $1 million during your lifetime. Once you exceeded that number, you had to pay tax on any additional gift during your lifetime. But now the rule is that you can gift up to your exclusion before you have to pay a tax on gifts that you give.

Fitts: So upping the exclusion is going to give you much more room.

Kemmerer: Exactly. You still have to report anything over $14,000, but it's just a recording requirement, so don't freak out.

Fitts: I don't know if you want to say anything about the alternative minimum tax (AMT).

Kemmerer: I do because I have many clients who this affects every year. The House bill repeals the individual and the corporate AMT, and I would love to see that go away. What that really is saying, "You make a certain amount of money, so even though we've got these tax rates, because you make this amount of money, we are going to add back a few things, and you are actually going to pay more tax because you're in this income bracket and this income group."

The House bill is going to repeal that entirely, which is great. The Senate bill retains both the individual and the corporate alternative minimum tax, but it raises the individual exemption threshold. So you have to be in a higher income bracket before it affects you, and I'm not sure what that income number is or I would tell you. So we'll see. That's a big difference between those two bills, so we will see how they work that out in conference.

Fitts: It wouldn't surprise me. If you look at the deadline, they were going to try to adjourn on the 15th, and the latest indication is that they are going to extend that to the 22nd because they have to do both the funding bill and finish this.

It wouldn't astonish me if they passed a tax bill by the 22nd with an agreement among the leadership that they will do a clean-up bill in the 1st quarter, which – of course – would make your life difficult.

Kemmerer: Last year when I did your radio show, and I was talking about all of the changes that the new Administration was discussing, I was concerned that my career was going to be over soon because it was going to be so simple that anybody could do it. Now that I see these bills that have been passed, I feel as though I'm going to be in more demand than I have ever been.

It's not that much of a simplification; there is plenty in here to chew on. One thing that I did want to mention, just backtracking a little, is when we talked about the pass-through treatment and the corporate tax rates, I neglected to mention that because of the lower rates that are coming, I'm confident that there are going to be lower rates for business income.

If you have listeners who have businesses and if you can possibly push invoicing customers into January, that would be a good idea because those revenues that you will be getting – and this is for cash-basis taxpayers only, not for accrual – should be postponed until next year because it will be taxed at a lower rate. If you can do that, you probably should.

Fitts: Getting back to the CPA question, I continue to feel that the ideal way to interact with the Internal Revenue Service and the tax authorities is to have an expert in between you and them. I think that it's a very good investment to have a CPA.

One of the questions I get all the time is, "You're so happy with your CPA. How do I find a great CPA?"

So maybe you could give us a brief overview of what the process is for finding somebody and establishing a working relationship that is effective. How do you find an expert CPA?

Kemmerer: In my opinion, the best way to find a great CPA is to talk to other business owners or other individuals who are using somebody who they like. Get a referral to that person because if they've been using them and they've been happy, I believe that's the best kind of referral to get – a referral from one of my existing clients. I think that is the best way.

If you don't know anybody who is using a CPA to help them with their taxes, you can always go to the Chamber of Commerce in your area or the State Board of Accountants to find out who the CPAs are in your area.

Fitts: If somebody is looking for a new CPA, is it appropriate for them to meet and interview with you before they decide?

Kemmerer: Absolutely. You have to be able to click, and not everybody clicks. We always offer a 30-minute free consultation just to meet and greet and get to know you and to talk a bit about your situation and give you an opportunity to determine if you can work with us, and for us to get an opportunity to see if we can work with you.

I do have people come in occasionally who say, "I don't want to report this, and I don't want to report that," and I say, "Then I'm not the CPA for you." It's that simple.

Fitts: It's ridiculous. I'll have clients or subscribers say to me, "I don't have to pay taxes on that because I bought that gold through a dealer with cash."

I say, "Oh, no. It doesn't work that way." If you want to be free, you want to be compliant.

Do you have anything else on 2017 and what we should be thinking about before the end of the year? One of the things that I always try to impress upon people is to archive, archive, archive. I just think that it is important to keep good books and records. We work very hard to keep them redundant.

I have many subscribers who have been impacted by fires this year – whether it was in Montana or Washington or California. One of the people on our team is five miles away from the fires right now in California. I think it's essential to keep excellent records, and I would also stress to people in this day and age to keep redundant copies. Now with digital records, you can do that very easily.

Do you have any other thoughts on what we need to do to make sure that our house is in order by year-end?

Kemmerer: Absolutely. Digital records are great. Get them on the cloud so that if something does happen, or even if your computer is stolen, then you have those records somewhere where you can access them.

Those little scanning machines are inexpensive now. So if you have the time to scan documents, I certainly recommend that you do that. If you don't, you may want to get a safe deposit box at your bank and put those important papers away so that you have access to them in the future if you need to get to them.

If you're in business, make sure that you have your mileage records in order and your meals and entertainment records in order. Those are always two areas that the IRS scrutinizes.

By the way, many people don't understand this either. Those types of records must be kept contemporaneously. That is to say that you keep them as you go along. If you wait until tax time and go through your calendar, and decide, "I didn't write this down, so now I need to go through my calendar," the IRS doesn't like that.

I had someone do that. They went to an audit, and sat down the night before, and wrote it all out through their calendar. I took it dutifully to the auditor, and set it in front of him and said, "Here it is."

He looked at it, and handed it back to me. He said, "She did this last night. Denied."

The reason he knew that is because it was all the same ink, it was all the same handwriting. Your handwriting is different from day to day. He just looked through it and said, "She did this last night," and I wasn't going to deny it.

Make sure you keep contemporaneous records, including if you're just making improvements to your house or whatever it is. Keep all of that in a safe place because eventually, you are going to need it.

Fitts: Any thoughts on what the things are that increase the chance of an audit?

Kemmerer: Certainly high business expenses for meals and entertainment and mileage, as I mentioned. I have a couple of clients who are making me a little nervous this year because they gave away a good deal of non-cash items to charity. So that's fine as long as they are different items to different charities at different times and so forth. But one thing that people don't understand is that if they give away – and I say this all the time – clothing and miscellaneous items, and give some to Goodwill and some to the Salvation Army and other similar charities, and it's all clothing and miscellaneous and it's over $5,000 for the year, you're supposed to have an appraisal.

Those are the kinds of things to be looking out for. When you get your taxes done, don't tell your accountant that it's 'clothing and miscellaneous items'. Itemize everything before you give it away, put it on a list, and take pictures of it. That is the other thing that I tell my clients. It has to be in 'good or better' condition. So if you're giving away your underwear with holes in it, that's a problem.

You need to take pictures of that good underwear, so they know that it was in good or better condition before you gave it away. So, I always tell my clients to take pictures of all of the goods that you're donating.

Fitts: This has been really delightful. You found nuggets on the new tax bills that I didn't even know about.

You prepare taxes and help people with their accounts all over the country. You're not just Virginia, obviously, because we're in Tennessee and we move around. You deal with many interesting issues. You helped us with the crowdfund, and there is always something.

Can you describe your website and your contact information and a little more about your practice, so if people are interested in contacting you, they can do so?

Kemmerer: Absolutely. The name of our firm is Kemmerer and Schooley, CPAs, and we are located in Northern Virginia, not too far from Washington, DC. We have many clients who send us things remotely all the time. We have a secure portal for our customers to upload any documents to us so that they can be sent securely. If you don't live near us or if you don't operate your business near us, that works just fine.

Our website is www.KS-CPAs.com, and there is a link on the website that anything can be uploaded to securely. Our phone number is (703)870-3699, and my personal email is Patty@KS-CPAs.com. I would be happy to speak with anyone who has questions or is looking for a new CPA.

If you prefer to work with someone in your area, check around and find a good CPA who can help you. I don't recommend that you try this at home; there is just too much happening.

Fitts: I have to tell you that there is nothing more delightful than living utterly free of any concern about your tax compliance or having an audit. I feel as though I have the US Marines between them and me. I can't recommend you and your firm enough. I'm very grateful to you for all the years of really great advice and great performance and excellent service.

Kemmerer: Thank you, I appreciate that.

Fitts: I also can't thank you enough for joining us on The Solari Report. This has been absolutely fascinating. You're right; CPAs are going to be the hit of the Christmas party circuit this year.

Kemmerer: Definitely. When we go to those Christmas parties, it's the last thing that we want to talk about. So keep that in mind.

Fitts: I don't see any way that you are going to get out of it this year. Even if it's passed by the 22nd, it's going to take weeks to digest it, understand it, and find all the little nuggets.

The last time that I checked, the Senate bill was over 500 pages. So who knows what is buried in 500 pages?

Kemmerer: There is much, I'm sure, that is buried in there. It's going to take time for it all to shake out.

Fitts: You will be busy this year and next.

It's been a delight talking to you. Thank you for joining us on The Solari Report. Do you have any last comments before we go?

Kemmerer: I appreciate you having me once again.

Fitts: You have a great day.

Kemmerer: You, too and Merry Christmas!

MODIFICATION

Transcripts are not always verbatim. Modifications are sometimes made to improve clarity, usefulness and readability, while staying true to the original intent.

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Nothing on The Solari Report should be taken as individual investment advice. Anyone seeking investment advice for his or her personal financial situation is advised to seek out a qualified advisor or advisors and provide as much information as possible to the advisor in order that such advisor can take into account all relevant circumstances, objectives, and risks before rendering an opinion as to the appropriate investment strategy.