Why You Still Need a CPA/Tax Advisor *(originally published Dec-2019)*

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The first tax season after the Tax Cuts & Jobs Act is over. While some changes to the tax code, such as nearly doubling the standard deduction and eliminating personal exemptions, simplified tax returns for many, many others have found added complexities to their returns.

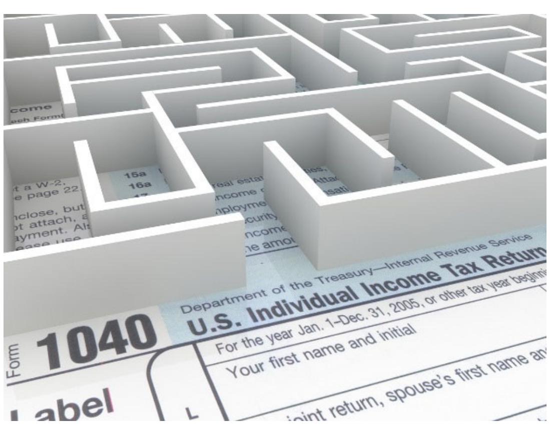
There is great deal of advice out there on what the new tax law means for taxpayers, but you shouldn't always trust what you hear on TV or read on social media. One of the most challenging issues CPAs battle is the word of mouth shared by 'experts.' Just because they say it is tax deductible on TV or online doesn't make it so. Nearly every deduction or tax credit has limitations, exemptions, and exceptions. Clients will come in and say 'You know, my sister's friend said that I can deduct (insert here) from my taxes because they own a salon and have been doing it for years." Even if the information is not flat out wrong, tax rules have so many nuances to them that a small change in the fact pattern can have drastic effects on the outcome. Do you really want to trust the advice of your sister's friend just because they own a business and have been doing something for years?

Here are a few reasons you should still consult with a CPA/Tax Advisor:

1. Do you truly understand all the changes?

While you want to take as many deductions as you're entitled to, the rules around which deductions you are permitted to take can be complex and require a substantial amount of analysis. A CPA can help you decide which deductions you are entitled to and may know of deductions that you didn't even consider.

2. You have a complex tax return.



What we mean by complex is that you are self-employed, work in or otherwise have income from multiple states, you receive partnership or other flow-through income, you own your own business, transact in cryptocurrency, or have foreign reporting requirements. Any one or combination of the above makes your tax return "complex." Being penny wise and pound foolish is a common mistake with costly consequences. If you have a complex return, trying to save money doing the return yourself may cost you more in the long run, whether it is through missed deductions or dealing with subsequent IRS tax notices about missed income or erroneous deductions.

3. You’re launching a business.

If you’re launching a business and money is tight, the idea of paying hundreds of dollars for a few hours with a CPA may seem extravagant. However, like many other startup costs, it’s an investment. A CPA can help you set up your business correctly in order to avoid mistakes that could cost you much more to fix. The legal structure you use - sole proprietorship, partnership, LLC, corporation, or co-op - affects many aspects of your business. A CPA can recommend the best business structure to meet your goals of getting the most beneficial liability protection, tax benefits and reporting requirements, and growth and succession possibilities. A CPA can also help you determine whether cash or accrual accounting is the best fit for your business and advise you on and/or assist you with setting up accounting software. Finally, a CPA may know of potential credits/incentives that you are unaware of, such as the research and development tax credit, which can be used by companies that develop, design, or enhance products or processes, or develop or improve prototypes and software. Many types of companies that you wouldn't immediately think of when you hear research and development may actually be doing things that qualify for this tax incentive.

4. Four letters…QBID.

This is one of the most complex parts of the new tax law and it affects anyone who is self-employed. When Congress passed the Tax Cuts and Jobs Act, it reduced the C corporation tax rate from 35% to 21%. Congress did not want to disadvantage owners of pass-through entities (sole proprietors, S corporations, and partnerships) by leaving them with a substantially higher tax liability than C corporations. Congress reduced this tax burden by creating Section 199A, also known as the Qualified Business Income Deduction (QBID). QBID is a complex deduction with a lot of rules surrounding it. There may be certain things you need to do to document that your business is a qualified business especially if you are in the business of real estate rentals. Talking to your CPA is key in making sure you are getting the most out of QBID.

5. **Qualified Opportunity Zone (QOZ)**

This is a tax incentive that investors with large capital gains don't want to miss out on. The new tax law created an incentive where investors who recognize a capital gain can invest that gain, within 180 days, in QOZ investments and defer paying capital gains tax on it until 2026. Even better than just deferring the gain - investors can get a 10-15% tax reduction on the original gain if they held the QOZ investment for 5-7 years before 2026. In addition, if they hold the QOZ investment for 10 years, any appreciation earned on the investment is most likely not subject to tax. At the time of this writing, 2019 is the last year to invest in order to qualify for the maximum benefit, so if you expect to have large capital gains personally or in a flow-through business that you own, speak to your CPA to learn more.

6. **Managing Through Business Cycle Phases.**

Whether you are starting a business, have been in business for a while and want to expand, or are planning to wind down by selling, closing, or transferring it to the next generation, a CPA can help you navigate through the options. A CPA can be a valuable resource to ensure you are equipped with the knowledge needed to make the best informed decision to meet your personal goals, while avoiding unforeseen roadblocks along the way.

If you think you might fall into any of the categories discussed above, please make sure you consult with your CPA/Tax Advisor. No one wants to leave deductions on the table when it comes to taxes, and it is cheaper to do it right the first time than to find out you missed an opportunity, or took one erroneously, years down the road.

Luci Roseman is a manager in the Tax Department of Cover & Rossiter. Since joining the firm in 2011, she has used her keen attention to detail and problem-solving capability to help clients navigate the ever-changing tax laws. While her focus is primarily on tax work for corporate, individuals and trust clients, Luci also enjoys helping lawyers understand the requirements of Rule 1.15 and provides pre-certification and consulting services in that area.

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