



# Willson & Pechacek, P.L.C. Newsletter



General Issue

JANUARY 2019

## Section 199A Qualified Business Income Deduction Under the Tax Cuts and Jobs Act

By Lonny L. Kolln II

**A** new deduction allowed under the Tax Cuts and Jobs Act that passed in December, 2017 is Section 199A– Qualified Business Income Deduction. Section 199A provides may taxpayers a deduction for qualified business income from a qualified trade or business operated directly or through a pass through entity. An example of a pass through entity would be an “S” corporation or an LLC. “C” corporations are not directly eligible for a Section 199A deduction. Eligible taxpayers may be entitled to a deduction of up to twenty percent (20%) of qualified business income “QBI” from a domestic business operated as a sole proprietorship or through a partnership, “S” Corporation, trust or an Estate. For taxpayers with taxable income that exceeds \$315,000 for a married couple filing a joint return, or \$157,500 for all other taxpayers, the deduction is subject to limitations such as the type of trade or business, the taxpayer’s taxable income, the amount of W-2 wages paid by the qualified trade or business and the unadjusted basis immediately after acquisition of qualified property held by a

trade or business. Income earned through a “C” corporation or by providing services as an employee are not eligible for the deduction.

QBI is the net amount of qualified items of income, gain, deduction, and loss from any qualified trade or business. Only items included in taxable income are counted. Items such as capital gains and losses, certain dividends, and interest income are excluded from the definition from QBI.

A qualified trade or business is any trade or business with two (2) exceptions:

1. Specified service trade or business, which includes a trade or business involved in the performance of services in the field of health, law, accounting, actuarial science, performing arts, consulting, athletics, financial services, investing and investment management, trading, dealing in certain assets of any trade or business where the principal asset is the reputation or skill of one or more of its employees. This exception applies only if the taxpayer’s taxable income exceeds \$315,000 for the married filing joint return, or \$157,500 for all other taxpayers.

2. Performing services as an employee.

If the taxpayer’s taxable income is above the \$315,000/\$157,500 thresholds, the deduction may be limited based on whether the business is a specified service trade or business, the W-2 wages paid by the business and the unadjusted basis of certain property used by the business. These limitations for 2018 are phased in for joint filers with taxable income between \$315,000 and \$415,000 and all other taxpayers with taxable income between \$157,500 and \$207,500. The phase-ins will be adjusted for inflation in subsequent years.

Although the calculation of Section 199A deduction may sound complicated, it could be a valuable deduction in limiting the amount of federal income taxes you pay. Therefore, it is important if you are near the threshold limits to do proper planning to make sure you are eligible for the deduction. If you have any questions, on how Section 199A affects your income tax return, please set up an appointment to discuss the matter with us.

## Understand the Risks of Adding Others to Your Bank Accounts

By Jamie L. Cox

As you get older and less able – or even willing – to deal with financial responsibilities, it is common to turn to family to help take care of your finances. One comprehensive tool to use in such a case would be a durable power of attorney, in which you name someone as your agent to handle financial affairs on your behalf. Another commonly used method is naming an adult child or other family member as a co-owner or a co-signer on a bank account.

A co-owner has full access to the account and will legally own the money in the account after your death. A co-signer simply has authority to write checks and draw on the account, but does not own the money. Adding someone to an account as co-owner or co-signer is a simple method of allowing someone to take charge of a specific account and its check book. However, you should use caution in choosing between those two options.

First, you want to make sure you name someone you trust. As a co-signer or co-owner, the person designated will have full access to your account and therefore must be relied upon to act in your best interests. Too many times there are unfortunate cases where money is improperly taken from the original account owner, sometimes leaving them with nothing but an empty account.

Second, some people try to avoid probate simply by naming a child or other person as a co-owner on the account (designating a co-signer does not have the same probate avoidance effect). The main point to consider, however, is that when you die, the remaining account balance will automatically pass to the person you name as co-owner. This can be problematic if, for example, you want all of your assets to pass equally to your children after your death. The child named as co-owner will inherit that entire account, with no legal obliga-

tion to share it with siblings or anybody else. Therefore, you should give careful thought as to whether that's the result you want, or if you trust that child to "split" the account with siblings after the fact. Even if the child respects your wishes and shares the money with siblings, that child could have negative gift tax consequences as a result.

While naming an account co-owner or co-signer can be useful for getting someone to help with your finances, using a power of attorney is still preferable because it will give your agent access to your financial accounts plus the authority to handle all of your other financial affairs, if necessary. Further, an agent is acting on your behalf and therefore has a fiduciary duty to act in your interest, while a co-owner or co-signer does not.

For more information on this topic, you should contact your attorney that handles your estate planning needs.

## Winter Means It's Time to (Credit) Freeze

By Paul S. Wilson

**D**ata breaches and identity thefts are at record highs. According to Experian Information Solutions, Inc., 1,579 data breaches occurred in 2017, exposing nearly 14.2 million credit card numbers and 158 million Social Security numbers.

In response to this problem, Iowa recently enacted a new and updated credit freeze law, which became effective on July 1, 2018. Under this new law, consumers can place, remove, temporarily suspend, or reinstate security freezes free of charge. Previously, credit reporting agencies could charge a fee for credit freezes.

A credit freeze restricts access to a consumer's credit report. The freeze makes it much more difficult for identity thieves to open new accounts under a consumer's name. Freezing your credit cannot prevent all forms of identity fraud, however,

it is still important to check your credit card bills and credit reports regularly.

Consumers who freeze their credit reports but later wish to apply for credit can contact the credit reporting agencies to lift the credit freezes, which is also now free to consumers.

To place a security freeze on your credit reports, you have to request a freeze from each of the three consumer reporting agencies, Equifax, Experian, and TransUnion.

You will have to either write to the addresses listed at the end of this article, call using the automated system, or log in online to provide the requested documentation, which may include your addresses for the last two years, Social Security number, date of birth, a copy of a document such as a utility bill showing

your name and current mailing address, and/or a copy of a government issued identification card.

Equifax  
P.O. Box 105788  
Atlanta, GA 30348  
800-685-1111  
www.equifax.com

Experian  
P.O. Box 9554  
Allen, TX 75013  
888-397-3742  
www.experian.com

TransUnion  
P.O. Box 2000  
Chester, PA 19016  
888-909-8872  
www.transunion.com

If you have any questions about the new law related to credit freezes, please feel free to contact one of our attorneys.

## Landlord's Lien Basic - An Important Tool in a Tough Farm Economy

By Paul S. Wilson

**L**ow crop prices have continued to make it difficult for farmers to make ends meet. With the tough farm economy, it's more likely that farm tenants may fail to make their rental payments on time.

Iowa Code Section 570.1 provides farm landlords with an important tool to protect their financial interests, known as a landlord's lien. The landlord's

lien secures an interest for the landlord on all crops grown upon the leased farmland. Under the law, a lien automatically attaches to the farm products grown on the property. However, only a "perfected" landlord's lien is prioritized ahead of other creditors.

To perfect a landlord's lien in farm products, which makes it enforceable against other creditors, the landlord has to file a

financing statement with the Iowa Secretary of State, as required under Iowa Code Section 554.9308(2). The financing statement is known as UCC-1.

It is important to file the financing statement to ensure that the landlord is first in line ahead of the tenant's other creditors, such as banks with operating loans.

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**Willson & Pechacek, P.L.C.**  
Newsletter

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Landlord's Lien Basic (continued from page 3)

A landlord must file the UCC-1, which states that it is "for the purpose of perfecting a landlord's lien," with the Iowa Secretary of State. If possible, the UCC-1 should be filed within 20 days of the tenant taking possession, which usually would be March 20.

The perfected landlord's lien cannot guarantee that a landlord will recover the rent due from the tenant, but it provides the maximum legal protection available under the law.

The farm tenant might also want the landlord to perfect the landlord's lien. The tenant may want the landlord to be first in line ahead of other creditors. If other creditors get the proceeds from the crop and the landlord remains unpaid, the landlord may be unwilling to allow the tenant to rent the farm in future years.

If you have any questions or need assistance filing a financing statement, please contact one of our firm's attorneys.

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P.L.C. RECOGNIZED AS A  
"BEST LAW FIRM" BY U.S.  
NEWS – BEST LAWYERS®**

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The "Best Law Firms" rankings are based on a rigorous evaluation process that includes the collection of client and lawyer evaluations, and peer review from leading attorneys in their field. Firms included in the "Best Law Firms" list are recognized for professional excellence with persistently impressive ratings from clients and peers.

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