



Coach Approach Ministries Podcast

Episode 134: How New Tax Laws Affect Your Coaching Practice

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Brian Miller: This is Brian Miller, strategic director for Coach Approach Ministries, CAM for short, and I'm joined here today by Laura Sanders. Laura was a special agent at the Internal Revenue Service for almost 10 years. For the last 20 years, she's worked in the private sector as a financial investigator and consultant helping people work through the dreaded IRS tax audit, and criminal investigations, and most recently, and this is what I'm probably most excited about, she has opened a coaching practice working primarily with police officers.

Brian Miller: Laura Sanders from San Antonio, Texas, welcome to the podcast.

Laura Sanders: Thank you very much, Brian, it's great to be here.

Brian Miller: Laura, before we get started on the tax law, I know you have a real heart for police officers, and that's why you've opened a coaching practice distinctly for them, and maybe we should do a whole session on that. But, just briefly, tell us about your heart for police officers.

Laura Sanders: Well, my husband is a police officer. 25 years ago, he entered the police academy.

Brian Miller: Wow.

Laura Sanders: We're celebrating a big milestone coming up here, and another pay raise, which is always good. But, I see the toll that the job takes on police officers, and having been a special agent myself in law enforcement, I'm accepted as one of them, and so I can really reach out to them.

Laura Sanders: Many of our police officers, they don't need counseling. They didn't ... They're not suffering from PTSD, many of them, but coaching can always be a benefit to them because of the isolation they have in law enforcement.

Brian Miller: Yeah. It's an ... It's more and more isolated, isn't it? And someone to talk to that they trust who's not there to ...

Laura Sanders: Psychoanalyze them.

Brian Miller: Psychoanalyze them, but to help them move forward in their own expertise. I love it.

Laura Sanders: Yes. It could be a negative mark on your career if you see a counselor or psychiatrist, and so many of them will resist it until the last possible minute, but their job takes a toll on their personal life, on their families, and their work, and that's where coaching can really come in to benefit them and give them another tool in their arsenal.

Brian Miller: Well, we're praying for your success as a coach. We want you to be successful, not only for your own coaching practice, but for these men and women in blue who have sacrificed so much to keep our nation safe.

Laura Sanders: Thank you. Thank you. What's at bay?

Brian Miller: So, let's start a ... We have five new tax laws that will affect your coaching practice. That's today. Five, and I'll ... I have arm-wrestled Laura down to five. She wanted to do 29, because there's so much to this. It can be very complicated, can't it?

Laura Sanders: It's going to be fun to try to explain this without any visuals. We'll use a lot of technical terms like 1040s, schedules A, schedule C, AGI, and so we'll try to take it slow.

Brian Miller: Good deal. Well, I'll be the one who will ask a lot of questions. So, we'll get into that.

Brian Miller: So, what's the first thing we need to know about 2019 tax law?

Laura Sanders: Well, the good news is, is that we're going to have lower tax rates. So, in ...

Brian Miller: Oh, nice.

Laura Sanders: Yeah. In the tax code, there's seven brackets based on where your taxable income falls.

Brian Miller: Okay.

Laura Sanders: And then past the highest bracket is 39.6%. Under the new law, the highest bracket will be 37%. Now, most people will fall in the range if you're married, filing joint within the range of 75,000 to 153,000 taxable income.

Brian Miller: I would think so, yes.

Laura Sanders: Last year, your tax break would have been 25%. This coming year, it's 22%.

Brian Miller: 22%. 3% out of a hundred thousand, \$3,000 back in my pocket.

Laura Sanders: Yeah. That's a nice little savings there. So, that's the best news I've got. No. No. The best news we're saving for the last, but that's some great news for everyone.

Brian Miller: Coming from nerdy tax law, Laura Sanders.

Laura Sanders: Yes.

Brian Miller: I suspect that many of us would think that lower taxes out of our own pocket would be helpful, so that's great. That's quick. What's ... That's number one. What's number two?

Laura Sanders: Number two is those child tax credits, so if you still have children living at home, dependents on your tax return, that credit went from a thousand dollars per child to \$2,000 per child, and the best news, it doesn't begin to phase out until you reach \$400,000 as a married filing joint-couple, or 200,000 as a single, so you're going to get a benefit of \$2,000 per child.

Laura Sanders: Now, I know our children cost us more than that, but at least it's something.

Brian Miller: Well, they do, and in fact, my children have phased out of that age range. My youngest is 17, and I think I just lost him as well. So, and they get more expensive as they get older, but it certainly is a nice piece to have a benefit to child tax credit.

Laura Sanders: And you can't put your ... You can't claim your dog. That's still in the rules.

Brian Miller: My dog?

Laura Sanders: You can't claim him.

Brian Miller: Well, it's iffy whether I claim him in general or not, it depends on the day. So, all right. So, child tax credit limit has went up?

Laura Sanders: Right, and there's also an added benefit if you care for another dependent other than your children, such as an aging parent, government is also giving you a new \$500 credit that you can claim for that person.

Brian Miller: So, if my mother in-law or my mother were living with me, which is always looming, I suppose, there is a tax credit for that to say thanks, to help out?

Laura Sanders: That's right. \$500, not huge, but it's a nice little bonus for something that you're going to end up doing, maybe, anyway.

Brian Miller: Oh, yeah, and we almost ... We were almost there. My mom was going to move in, decided not to move in, wants to retain her independence. That's ... And I ... Boy, that's a big deal, isn't it? So, you were going to surprise me with \$500, but it didn't quite work out that way.

Brian Miller: But, all right. All right. We're rolling now. I think we're going to spend more time on number five as we get there.

Brian Miller: So, tax rates lowered, child tax credit increased, and then what's number three?

Laura Sanders: Number three is, we start to get a little technical, it's called personal exemptions.

Brian Miller: Yeah, so that's at the top, right? Where it says how many, including yourself, everybody that's a dependent ... [crosstalk 00:07:12]

Laura Sanders: Including your spouse, list all your children, their social security number, how many months they lived in your household, and you would take that number in the old days times \$4,050.

Brian Miller: Yes. Yes.

Laura Sanders: So, a married couple would have \$8,100 off the top. Married couple with two children would have \$16,200 deducted off the top.

Brian Miller: I like that.

Laura Sanders: Now, we're to simplify the tax return, this is the government's way of simplifying, you get zero. No more personal exemptions. I've just ... [crosstalk 00:07:52]

Brian Miller: Now, that doesn't sound like good news at all.

Laura Sanders: Yeah. We'll just do away with that line item to make the tax return shorter, so ...

Brian Miller: I do like it shorter. Laura, it's just always been ... It seems to me like everybody ought to be able to do their own taxes. Certainly, as we're talking about coaches, this is most likely they are filling out schedule C, they're doing business as, something along the other ... They could have an S corp or some kind of situation like that, but it just ... And maybe at least until you get into some kind of corporate, it seems to me like you ought to be able to do your own taxes.

Brian Miller: And so, you showed me a ... The 2019, I guess it would be 2018 tax form, and it is half the length of the 2016, 2017 tax form.

Laura Sanders: It prints out one sheet of paper, half a page on one side, and half a page on the back side.

Brian Miller: Wow. Okay.

Laura Sanders: However, I will tell you this, for those of us that are familiar with schedules A, schedules B, C, D, those are still there, but IRS has also added schedules 1 through 6.

Brian Miller: Complex it. It's simpler by being more complex.

Laura Sanders: Yes.

Brian Miller: Really.

Laura Sanders: So, we could basically bring over subtotals from those various schedules to our tax return. That was to make it shorter.

Brian Miller: So, this personal exemption's eliminated, is that going to make my overall tax higher?

Laura Sanders: Your tax rate's cheaper, tax rate's lowered, so that will help. Your overall taxable income may be higher because you just lost out on that \$4,000 deduction. Now, the good news, the next line item on the tax return under our personal exemptions has always been the standard deduction or itemized deductions. What that is, is you take your standard deduction in the old days of \$12,700 for a married couple, and then you compare against that on your property taxes, your state income tax if you're not fortunate like Texas, your general sales tax, your home mortgage interest, your gifts to charity, and your medical if they exceeded a limit.

Laura Sanders: Add all those up, and if they were greater than the standard deduction, you would itemize and fill out that schedule A.

Brian Miller: Right, which I think happened to me once. I think one time in my life, I was a pastor for many years, so that income bracket had been pretty low for me over many years, but there was one year, I remember, that the ... It actually benefited me to do the schedule A, I think?

Laura Sanders: Yes. Schedule A. And, IRS estimates that 30% of the population that files their tax return itemizes and fills out that schedule A.

Brian Miller: Really? Okay.

Laura Sanders: 30%. Under the new law, what they did is they increased that standard deduction.

- Brian Miller: Okay.
- Laura Sanders: A married couple will now get a standard deduction of \$24,000.
- Brian Miller: Oh, okay. So, it's double almost, right? It's in that range, and this kind of makes up for the personal exemption eliminated.
- Laura Sanders: Yes, because what will happen is fewer and fewer, they estimate only 10% will continue to itemize because it's going to be difficult to get over that \$24,000 benchmark.
- Brian Miller: Got you.
- Laura Sanders: So, everybody will just fill in the flat standard deduction and take that amount. If you're married, filing separate, or if you're single, it's half of that: \$12,000.
- Brian Miller: And that's only based on whether it's married or not? The children don't come in to play on the standard deduction?
- Laura Sanders: Right. It's based on your filing status, and there's basically five filing statuses; single, married filing separate, married filing joint, head of household. Those are your filing statuses that will determine what your standard deduction is.
- Brian Miller: Okay. Okay. So, much less likely anybody's going to take an itemized deduction in this next year?
- Laura Sanders: It is. Now, there's 10% who will, and there are changes to that schedule A that will even reduce the people that are able to itemize. For instance, because Texas doesn't have income tax, our property tax tends to be high.
- Brian Miller: Okay.
- Laura Sanders: You can only deduct up to \$10,000 of property tax, plus your income tax or general sales tax. So there's that cap right off the top, of \$10,000 on the taxes you paid that you can itemize. Another one that was limited, which would affect people in high-end real-estate markets, if you bought a house in 2018, the limit on that house purchase price to be able to deduct the interest is \$750,000, and I could see where you might be in California, a \$750,000 home is a lot in Texas, but maybe not so much in California, and if that's the case, you can only deduct the interest up to a \$750,000 home purchase.
- Brian Miller: So it's interesting, I want a simpler tax form, but as they eliminate things to make it simpler, I'm like "Hey, I want my thing back that affects me." Yeah. Really.
- Laura Sanders: Well, and casualty and theft losses, somebody has a total casualty loss, their house burned down, you won't get to deduct that unless it's in a federally

declared disaster area, so that won't get that benefit at all, and there's no more miscellaneous deductions.

Laura Sanders: So, the entire schedule A has been limited, so that almost forces people to file a standard deduction.

Brian Miller: Right. Right. What about charitable deductions? Does that change on the schedule A?

Laura Sanders: That actually increased.

Brian Miller: You can do more?

Laura Sanders: You can do more. You could do up to 60% of your AGI.

Brian Miller: Really?

Laura Sanders: Now, I don't know many people that donate up to 60% of their adjusted gross income.

Brian Miller: That's amazing. That's amazing. I just heard another story of ... I think it was J.C. Penney, he lived on 2% of his income, and gave away 98% or something like that.

Laura Sanders: Maybe his family lobbied for this law.

Brian Miller: He would benefit today if he was still alive.

Laura Sanders: Yes, he would.

Brian Miller: Very good. All right, we have really ... This has been great information. We just went right through the first four here, I think, very clearly, understandable.

Brian Miller: So, this next one is new, and so this is where people do not know this information. This is brand new. Number five.

Laura Sanders: This is brand new. As you mentioned, those first items we discussed; the tax breaks, the child tax credit, personal exemptions and standard deductions, will apply to everybody across the board. However, this next law that we're going to discuss only applies to the self-employed.

Brian Miller: Which is coaches, typically.

Laura Sanders: Which is coaches, and it's basically for anybody that's filed a schedule C, which is actually called what? A profit or loss from business.

Brian Miller: Yes. Yes. Yes. I'm very familiar with that one.

- Laura Sanders: Yes. So, what they did under this job ... It's actually called what? Job ... Oh, I forgot what it's called now. Tax cuts and job act. What they did was give C corporations a flat tax rate of 21%, where before, their taxes went up from 15 to 35%.
- Laura Sanders: Well, someone in their wisdom realized that the small business man, the self-employed, wasn't getting that benefit because they weren't a C corporation, so they added this new law referred to as section 199A.
- Brian Miller: There's somebody in DC looking out for me? Is that what you're telling me?
- Laura Sanders: Yes. Can you believe that?
- Brian Miller: No. No.
- Laura Sanders: I'm sure it was somebody with a vested interest.
- Brian Miller: Yeah, probably. But I appreciate that. I appreciate that. So, go ahead.
- Laura Sanders: Yes. So, if you operate a qualified business as a sole proprietorship, which is your schedule Cs, a partnership, a S corporation, or even certain trusts or estates, you're going to benefit from this next deduction that we're going to talk about.
- Brian Miller: All right. Fantastic. So, that's most small business, you categorized them. I recognize my area, and an area I'm thinking about moving into, so I think we're all on the same page here.
- Laura Sanders: Right, and they're called flow-through entities, because that tax, the income flows through to your personal tax return and you pick up all the net profit on your personal return. It's not a separate taxable entity.
- Brian Miller: Right. Right. Most of the money goes to the person who's ... Owns the ... I mean, and the C, it just goes straight through in a J corp, which I ... You're going to know a ton more than I am. It's mostly going to ... There's a little more that can stay in that and be a draw, and such.
- Laura Sanders: Right, exactly.
- Brian Miller: But, mostly ...
- Laura Sanders: So, the basic ...
- Brian Miller: Go ahead.

Laura Sanders: The basic rule is real easy. The basic rule, if you make, as a married filing joint-couple, less than \$315,000 taxable income for that year, you and your spouse, or if you're single, \$157,500 taxable income.

Brian Miller: I'm guessing that's most of our listeners. I'm guessing.

Laura Sanders: I'm guessing. So, if you make less than that amount, you're going to get a 20% deduction on your net profit of your schedule C business.

Brian Miller: No kidding?

Laura Sanders: Yeah. 20%. Kind of like 20% off the top. So, you take your schedule C, and you report on that, all your gross receipts from your coaching business, and let's just assume it's a hundred thousand dollars gross receipts, then below that line, you take all your expenses, your advertising, your office expenses, whatever it is.

Brian Miller: Right? Website. Your ... Maybe your computer, you got to get a new computer. You might have some office space in your house, some things like that.

Laura Sanders: Yeah, maybe. That's a tight one. But ...

Brian Miller: All right. All right. All right.

Laura Sanders: Okay. So, you take all those expenses, and let's assume those are \$10,000 for easy math.

Brian Miller: Okay.

Laura Sanders: So your net profit is now \$90,000 off of your coaching business.

Brian Miller: Yes, I'm with you.

Laura Sanders: Now let's assume between your wife's teaching job, coaching business, you fall under \$315,000.

Brian Miller: Okay.

Laura Sanders: You're good now. So on your front of your tax return, you'll bring over that full \$90,000 net profit from your schedule C business, and then you'll compute your taxable ... Your adjusted gross-income, then you'll take your standard deduction of that \$24,000, then you're going to subtract 20% of your schedule C net profit.

Brian Miller: So, in your example, that would be \$18,000?

Laura Sanders: \$18,000 you get to subtract from your adjusted gross-income before you come down to taxable income.

Brian Miller: Wow!

Laura Sanders: It's a huge benefit, and this was one reason, I actually made that jump from employee at the law firm to self-employed because of this new benefit for us. Now, you're at that \$18,000 you get to subtract. Now if you notice, your self-employment tax is still paid on the full net profit, that 90,000, but your income tax is only paid on \$72,000.

Brian Miller: Right. Wow.

Laura Sanders: So it's a very nice benefit.

Brian Miller: Very nice, and you've explained it so cleanly, honestly. You were saying, "This could get complicated. I can't use pictures on a podcast." But you've explained it very, very well, I think. I mean, I'm getting it.

Laura Sanders: Well, thank you. Well, for the people that are listening to us that make more than \$415,000 taxable income, married filing joint, or half of that as a single, they get zero deduction.

Brian Miller: Well, I ... My first thought, of course, is "Good." But, no. Not at all.

Laura Sanders: Yeah. So ...

Brian Miller: This is not a political conversation of any sort.

Laura Sanders: Trust me, my husband's a police officer. We will make under the \$315,000, so ...

Brian Miller: That's right. That's right. No. No. Yeah, no. That's great. That's helpful.

Brian Miller: So, in small business, I think people need to be in small business. I think this is ... More people are in small business than anybody knows, it's a large percentage of the population, and I think it makes the country run well. I think it ... There's so many benefits to it that I'm really appreciative of this 20% deduction.

Laura Sanders: Yeah. Well, they say it's the backbone, some would say, it's the backbone of America.

Brian Miller: I would. I would say so.

Laura Sanders: Yeah, this is a nice benefit, and it only gets complicated if you make between those amounts, between the 315 to the \$415,000, because then it starts to phase out, so just know that's there, but that 20% deduction will help a lot of our listeners.

Brian Miller: Oh, I would think so, so we need to be looking forward to that, that deduction. Goodness. Goodness.

Laura Sanders: Yeah. So again, on this tax return, it's called ... That postcard size, you're going to report your wages from your W2s, add your interests, dividends, social security benefits, plus all other income from your schedule 1, which is, schedule one takes your schedule C, net profit loss from your self-employed business, takes any rental income, any capital gains, it just subtotals them to bring them over to that form 1040.

Brian Miller: That makes sense. That makes sense. Yeah, and you told me that this postcard size, 1040, it's not an EZ, it is the standard 1040. It is a very short form, and sort of schedule one will be where you'll kind of sum up all your income.

Laura Sanders: Right, and that's all the schedules are is to some up all your taxes, or to sum up all your income to bring them over, and then under that adjusted gross-income, you take your standard deduction or your itemized, and you take your 20% qualified business income deduction to reach your taxable income.

Laura Sanders: Now, once you have that taxable income, you'll apply that income tax rate based on your bracket that we talked about earlier, then you take your child tax credit, and then you add that self-employment tax. Self-employment tax hasn't gone away, and it's the same rate. Then you'll have your total tax liability for the year.

Brian Miller: That's ... And so, when you started this, and I said, I think I already said earlier, it just seems to me like a self-employed person ought to be able to do their own taxes, but as soon as you get into schedule C, there's so many things, you start thinking, "I need somebody else to do this." And when I saw this on the list, 20% deduction for qualified trader business, section 199A, I thought "Okay. Unlikely I'm going to understand this enough to be able to apply it myself." But already, I feel very ... It's most likely I will be able to apply this. If I want to do my own taxes, this should be pretty simple.

Laura Sanders: Yes. Most people get in trouble over the schedule Cs, and I could tell you from my experience as a former special agent and as a certified fraud examiner, a lot of audits will originate out of schedule Cs if the expenses don't line up with the income, so if you have a hundred thousand dollars of coaching gross-receipt, and you've deducted 90,000 as expenses, it doesn't take much to see this just doesn't smell right.

Brian Miller: Right. Right. Right. It's going to red-flag it.

Laura Sanders: Yeah, and then you start opening yourself up to problems. So ...

Brian Miller: Yeah, I don't mind paying taxes. I don't mind paying more taxes as long as I'm making more money. That doesn't seem like a problem to me. There's a lot of good uses for taxes and such. But Laura, this has been so helpful and timely. I really appreciate you taking your time to give us five new tax law information that will affect our coaching practice.

Laura Sanders: Yes, thank you so much for having me, and if anybody has questions, needs me to go over that in a little more detail, or hopefully never an audit, feel free to contact me. Lsanderson@boldhopecoaching.com.

Brian Miller: Lsanderson@boldhopecoaching.com. You can get ahold of her about these tax issues, and I want to make sure people know they can get ahold of you about getting coaching for police officers at that same email address.

Laura Sanders: Yes, exactly. Law enforcement and their families, that's my passion and that's my niche that I've declared for myself and it's worked out really well.

Brian Miller: It's been fun watching you grow as a coach, and you've done very well, and people would really benefit from hiring you as a coach.

Laura Sanders: Well, I appreciate CAM having that first certification, and I'm looking forward to all the classes in 2019 to give the executive certification.

Brian Miller: Oh, awesome. We're looking forward to having you. Let me thank everybody for listening to this week's podcast at Coach Approach Ministries, it's a non-profit coach training school with over 15 years of experience training more than 2,000 coaches just like Laura. Let us know how you can start or further your coaching career by visiting us at coachapproachministries.org, or email me at bmiller@ca-ministries.com.

Brian Miller: We'll see you next week.

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