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2018 YEAR-END TAX PLANNING TIPS

Year-End Planning for Income Taxes is Critical!
Phase One of Tax Reform Has Become Law

2018 is coming to a close; however, you still have time to avoid big surprises at tax-time next year. We suggest that you start year-end planning now by finding time to read through this newsletter as soon as you can. It's filled with tax-saving ideas, many of which won't work if you wait too long.

Tax Reform

Tax legislation was signed into law in late 2017 providing little opportunity for planning for 2017. Congress is considering Tax Reform 2.0. which if successfully passed, may make many of the Tax Cuts and Jobs Act provisions permanent allowing for additional planning opportunity's in the coming years.

The IRS Has Been Quite Active on the Regulatory Front

During 2018, the IRS issued a number of major regulations, rulings and other guidance that impact your tax picture. We stay abreast of these rules in order to assist you with tax planning and tax preparation. There is still guidance needed on some issues and we monitor these on a daily basis.

2019 Deadline

April 15, 2019 will be the 2018 Tax Deadline for Most Individual Taxpayers and C corporations. March 15, 2019 will be the deadline for calendar year S corporations and partnership returns.

Some Common Tax Law Provisions in 2017 are Not Allowed in 2018

Qualified Principal Residence Indebtedness Exclusion is no longer available.

In addition: The Tuition and Fees Deduction and the Mortgage Insurance Premiums were also not extended into 2018 and will no longer be an adjustment or a deduction on the Form 1040 return.

A New Look to Our Tax Return

The 2018 Form 1040 is structured as a "postcard" with six additional schedules which may be required, to file a correct and complete return. No worries, we are prepared to provide you with outstanding service in 2019 for your 2018 return and look forward to making the process as easy as possible.

Important Items for 2018 – Mileage Rates, Health Coverage and Retirement Reminders

- **Standard Mileage Rates for 2018** The optional standard mileage allowance for owned or leased autos (including vans, pickups or panel trucks) for business travel taking place in **2018** is **54.5¢** per mile. The **2019** standard mileage rates are expected to be announced by the IRS in early December.
- **Charitable and Moving Standard Mileage for 2018**

  14 cents for charity

  18 cents for medical and moving expenses
- **Reporting Changes in Circumstances** If you purchased health insurance coverage through the Health Insurance Marketplace, you may be receiving advance payments of the premium tax credit in 2018. It is important that you report *changes in circumstances* to the Marketplace, so you get the proper type and amount of premium assistance. Some of the changes that you should report include changes in your income, employment, or family size. Advance credit payments help you pay for the insurance you buy through the Marketplace. Reporting changes will help you avoid getting too much or too little premium assistance in advance. The Affordable Care Act mandates individuals and their dependents to have health insurance that includes minimum essential coverage or pay a penalty. Some taxpayers will qualify for an exception from this "individual mandate"; others already have qualifying coverage obtained through the individual market, through a government-sponsored exchange or through an employer-provided plan; still others have coverage through a government program such as Medicare or Medicaid. The tax year 2018 will be the last year that penalties will apply for not having minimum essential coverage. Though the penalty has been repealed for 2019, minimum essential coverage still applies.
- **Plan to participate in your employers flexible spending account or HSA** Between now and 2019 business will offer enrollment in flexible spending accounts and health savings accounts. These plans allow you to pay for out of pocket medical expenses on a pre-tax basis.
- **Employer sponsored retirement accounts** Annually review your ability to participate in your employer's retirement plan. Starting to save early for retirement can insure your ability to successfully retire. Not taking advantage of employer matches can be costly. Consider electing periodic automated increases in your contributions. Many plans offer this feature. Save early and often.

  Review your asset allocation annually in your accounts to make certain your investments are consistent with your risk tolerance and timeline to retirement.

The Tax Cuts and Jobs Act – Individuals

The following tax provisions were eliminated:

• Personal exemption deductions are suspended.

• The phase-out of itemized deductions based on adjusted gross income (AGI) is suspended.

• Itemized deduction for home equity interest (other than debt used to buy, build or improve) is no longer allowed. The home mortgage interest deduction debt limit is reduced to $750,000 ($375,000 MFS) with certain exceptions.

- Itemized deduction for miscellaneous itemized deductions subject to the 2% floor are no longer allowed.
- Personal casualty loss and theft deductions are eliminated unless the loss is incurred in a federally declared disaster area.
- The moving expense deduction and income exclusion is allowed only to members of the Armed Forces (or their spouses or dependents).
- No charitable contribution deduction is allowed for a payment to a higher educational institution in exchange for the right to purchase tickets or seating at an athletic event.
- Alimony is not deductible by the payer nor includible in income by the recipient for agreements entered into after December 31, 2018.
- Effective for 2019, the shared responsibility payment under the Affordable Care Act for not having minimum essential health insurance coverage is zero.

In addition, the following changes were made to the law:

- The threshold for deducting medical expenses is 7.5% of AGI for all taxpayers for 2017 and 2018. In 2019 that will change to 10%.
- The itemized deduction for state and local taxes is limited to $10,000 ($5,000 MFS). (This limit includes both state and local income taxes and real property taxes.)
- The Child Tax Credit increased to $2,000 per qualifying child and the phase-out threshold increased.
- There is a new Family Tax Credit of up to $500 for dependents who are not a qualifying child for purposes of the Child Tax Credit.
- For the charitable contribution deduction, the percentage of AGI limitation for cash to public charities and certain other organizations increased from 50% to 60%.
- The estate and gift tax exemption amount increased to $11,180,000.
- The long-term capital gain and qualified dividend income maximum tax brackets no longer follow the tax brackets for regular income tax purposes.
- The parent's rate is no longer used to calculate the kiddie tax. Instead, taxable income attributable to net unearned income is taxed at the estates and trusts tax rates for both ordinary income and net capital gains.

The 2018 alternative minimum tax (AMT) increased the exemption and phase-out ranges.

Filing Status	**Exemption**	**Phase-Out**
Single/Head of Household	$70,300	$500,000 - $781,200
Married Filing Jointly/Qualifying Widow(er)	$109,400	$ 1,000,000 - $1.427,600
Married Filing Separately	$54,700	$ 500,000 - $718,800

2018 Estate and Trust Income Tax Brackets

$0 to $2,550	10%
$2,551 to $9,150	24%
$ 9,151 to $12,500	35%
$12,501 and over	37%

The 2018 standard deductions were increased as follows:

Single or Married Filing Separately	$12,000
Married Filing Jointly or Qualifying Widow(er)	$24,000
Head of Household	$18,000

The 2018 Individual Tax Rates have also been modified under the new law.

Schedule X—Use if your **2018** filing status is **Single**

If line 3 is: Over—	But not over—	The tax is:		of the amount over—
$0	$9,525	-----------	+ 10%	$0
9,525	38,700	$952.50	+ 12%	9,525
38,700	82,500	4,453.50	+ 22%	38,700
82,500	157,500	14,089.50	+ 24%	82,500
157,500	200,000	32,089.50	+ 32%	157,500
200,000	500,000	45,689.50	+ 35%	200,000
500,000	-----------	150,689.50	+ 37%	500,000

Schedule Z—Use if your **2018** filing status is **Head of household**

If line 3 is: Over—	But not over—	The tax is:		of the amount over—
$0	$13,600	-----------	+ 10%	$0
13,600	51,800	$1,360.00	+ 12%	13,600
51,800	82,500	5,944.00	+ 22%	51,800
82,500	157,500	12,698.00	+ 24%	82,500
157,500	200,000	30,698.00	+ 32%	157,500
200,000	500,000	44,298.00	+ 35%	200,000
500,000	-----------	149,298.00	+ 37%	500,000

Schedule Y-1— Use if your **2018** filing status is **Married filing jointly or Qualifying widow(er)**

If line 3 is: Over—	But not over—	The tax is:		of the amount over—
$0	$19,050	-----------	+ 10%	$0
19,050	77,400	$1,905.00	+ 12%	19,050
77,400	165,000	8,907.00	+ 22%	77,400
165,000	315,000	28,179.00	+ 24%	165,000
315,000	400,000	64,179.00	+ 32%	315,000
400,000	600,000	91,379.00	+ 35%	400,000
600,000	---------	161,379.00	+ 37%	600,000

Schedule Y-2—Use if your **2018** filing status is **Married filing separately**

If line 3 is: Over—	But not over—	The tax is:		of the amount over—
$0	$9,525	---------	+ 10%	$0
9,525	38,700	$952.50	+ 12%	9,525
38,700	82,500	4,453.50	+ 22%	38,700
82,500	157,500	14,089.50	+ 24%	82,500
157,500	200,000	32,089.50	+ 32%	157,500
200,000	300,000	45,689.50	+ 35%	200,000
300,000	-----------	80,689.50	+ 37%	300,000

Year-End Tax Planning Moves for Individuals

Here are a few key tax-saving moves that might save you some money

☐ **Estimated Income Tax:** If you receive income that's not subject to withholding, you may need to pay estimated tax. This may include income such as self-employment, interest, or rent. If you expect to owe a thousand dollars or more in tax, and meet other conditions, you may need to pay this tax. You would normally pay the tax four times a year. Check with us and we can help you figure out how much estimated tax you may need to pay. The final estimated tax payment for 2018 is due on January 15, 2019.

☐ **Convert to a Roth IRA:** If you want to remain in the market for the long term, a Roth IRA might be better for you than a traditional IRA. Providing that you are eligible to do so, consider converting your traditional IRA money invested in stocks (or mutual funds) into a Roth IRA. Keep in mind, however, that such a conversion will increase your adjusted gross income for 2018.

☐ **Defer Income to 2019:** Postponing income is also desirable for those taxpayers who anticipate being in a lower tax bracket next year due to changed financial circumstances or tax rate changes.

☐ **Charitable Contributions:** When making contributions of cash, check, or other monetary gift, regardless of amount, you must maintain a bank record or a written communication from the charity. If the contribution is $250 or more, you must maintain a contemporaneous written receipt from the charitable organization.

Consider gifting an un-needed life insurance policy or appreciated stock held long-term to your favorite charity.

☐ **Balance Stock Gains and Losses:** If you have taken losses on stock sales in 2018 and you have investments that have appreciated in value, you should consider selling if you believe the values have peaked, and thereby offset gains with your pre-existing losses. It might be advisable for us to meet to discuss year-end trades you should consider making.

☐ **Accelerate deductions into 2018 to lower your 2018 tax bill:** This strategy might enable you to claim larger deductions, credits, and other tax breaks for 2018 that otherwise are phased out over varying levels of adjusted gross income (AGI). These include child tax credits, higher education tax credits, and deductions for student loan interest. Consider using a credit card to pay deductible expenses to increase your 2018 deductions even if you don't pay the credit card bill until after year end.

☐ **Pay First Quarter Education Expenses Early:** The Lifetime Learning Credit and American Opportunity Credit are available for 2018. Paying the first quarter of 2019 education expenses may increase the education credit, but planning is necessary. Contact us to see if you can benefit.

☐ **Sell Passive Activities with Suspended Losses:** If you own an interest in a passive activity with suspended passive losses, sale of the activity before year end will produce deductible losses that will reduce your taxable income. Call us to discuss this complicated strategy.

☐ **Don't Forget Your Required Minimum Distributions:** Take required minimum distributions (RMDs) from your IRA or 401(k) plans (or other employer-sponsored retired plan) if you have reached age 70 ½. Failure to take a required withdrawal can result in a penalty of 50% of the amount of the RMD not withdrawn.

☐ **Charitable IRA Rollovers:** Individuals 70 ½ and older can make charitable IRA rollovers up to $100,000 per year. These distributions satisfy your required minimum distribution requirement. These distributions do not result in taxable income, nor do they result in tax deductions. For taxpayers who don't normally itemize deductions they create a tax benefit, as you effectively get a deduction for the entire contribution, resulting in a significant tax savings. Let us do the math on this tax strategy.

☐ **Make Annual Gifts to Individuals:** Consider making gifts to family and other heirs. The annual gift tax exclusion for 2018 is $15,000. You can make gifts of this size or less to an unlimited number of individuals. Consider strategies like helping children and grandchildren fund ROTH IRA's as a way to transfer wealth. In addition, paying qualified higher education expenses (tuition) directly for someone is not subject to the annual gift exclusion limits.

- ☐ **Update Your Will or Trust:** If you haven't updated your estate planning in recent years now is the time. Consider the unique needs of heirs, including special needs trusts. Consider making discounted lifetime gifts to reduce the value of your estate, if you anticipate your estate will be subject to estate tax.

  Gifts to heirs using family limited partnerships can facilitate the use of discounts. Taxpayers with significant estates should also consider gifting the ownership of life insurance policies to avoid paying estate tax on the value of a life insurance policy. Consider remembering your favorite charities in your estate plans. Please consider including us in your discussions with your attorney.

Year-End Tax Planning Moves for Businesses & Business Owners

Here are a few key tax-saving moves for your business:

- **The § 179 limit for 2018 is $1,000,000** for purchases of qualifying assets. The new law expands the definition of § 179 property to include certain depreciable tangible personal property used predominantly to furnish lodging or in connection with furnishing lodging.

- **Bonus Depreciation:** the new law increases the bonus depreciation percentage from 50 % to 100 % for qualified property acquired and placed in service after Sept. 27, 2017, and before Jan. 1, 2023. The bonus depreciation percentage for qualified property that a taxpayer acquired before Sept. 28, 2017, and placed in service before Jan. 1, 2018, remains at 50 %. Special rules apply for longer production period property and certain aircraft.

  The definition of property eligible for 100 % bonus depreciation was expanded to include used qualified property acquired and placed in service after Sept. 27, 2017, if certain factors apply. Call us to see if you could benefit from this change.

- **Business Tax Provisions Changes:**

  - ✓ There is no longer a separate tax rate for personal service corporation's (PSCs).
  - ✓ The two-year carryback provision for net operating losses (NOLs) has been eliminated except for certain losses, farming and casualty insurance companies. In addition, the net operating loss deduction (NOL) is limited to 80% of taxable income.
  - ✓ There is no meals and entertainment deduction for membership dues or activities generally considered to be entertainment, amusement or recreation.
  - ✓ Alternative Minimum Tax (AMT) for C corporations has been repealed.
  - ✓ All taxable income of a C corporation is taxed at a flat rate of 21%.
  - ✓ The 70% dividends received deduction is reduced to 50%. The 80% dividends received deduction is reduced to 65%.
  - ✓ An individual taxpayer generally may deduct 20% of qualified business income from a partnership, S corporation, or sole proprietorship. In the case of a partnership or S corporation, the deduction applies at the partner or shareholder level. The deduction is disallowed for specified service trades or businesses when taxable income exceeds the threshold amount.
  - ✓ The depreciation limitations for luxury automobiles have been increased.

- **Like Kind Exchanges have been modified:** Before you trade in or exchange property for similar property, contact us. Changes in the like kind rules may have a negative impact.

- **Repeal of the Domestic Production Activities Deduction:** The Tax Cuts and Jobs Act repealed this deduction.

- **Changes in Accounting Methods:** The Tax Cuts and Jobs Act expands whom may use various accounting methods.

- TCJA expands the universe of taxpayers who can use various accounting methods by increasing the gross receipts threshold ("gross receipts test") under which those methods may be used. TCJA increases the limit for the gross receipts test to $25 million for using the cash method of accounting (including the use by farming C corporations and farming partnerships with a C corporation partner).

- **Succession Planning:** If you plan to exit or transition your business to new ownership, it will pay to do some tax planning well in advance. Not only can tax planning be financially rewarding, but a well thought out tax plan can give you peace of mind.

  We can help you create a comprehensive, integrated strategy that addresses business financial planning, personal financial planning, management succession, an estate plan and a plan for ownership transition.

- **S Corporation Election:** Consider incorporating and electing S Corporation status or, if your business is already incorporated, consider switching from C to S corporation status. Doing so will avoid double taxation. Once your business converts from C to S status, a 5-year period must pass before a future sale or liquidation can completely escape double taxation. Call to discuss whether converting to S corporation makes sense.

2018 Year-End Tax Tips

Not all these tips based on current tax rules will apply in your particular situation but you or a family member are likely to benefit from many of them. The sooner you call us for an appointment, the more time we will have to meet, find specific actions that will benefit you and your family and get you started on your year-end tax saving moves.

An Important Tax Tip That Apples All Year

What to do if you receive a suspicious IRS-related correspondence?

If you receive an email claiming to be from the IRS that contains a request for personal information, taxes associated with a large investment, inheritance or lottery. Don't reply. Don't open any attachments. They can contain malicious code that may infect your computer or mobile phone. Don't click on any links. Forward the email as-is to IRS at phishing@irs.gov. Don't forward scanned images because this removes valuable information. Immediately delete the original email.

Contact our office immediately before initiating any contact with the IRS, or someone claiming to be an IRS employee whether you receive a phone call, letter, email, text or fax.

NOW IS THE TIME TO PLAN FOR YOUR 2018 TAXES!

Situations occur almost every day that can impact your income taxes. Waiting until 2019 is likely to mean missing tax planning opportunities that are only available until the end of 2018.

In 2018 did you have a significant income change? Change your name or address? Marry, divorce, or live apart from your spouse? Have or adopt a child? Did your dependents graduate from college? Start or sell a business? Purchase or sell business equipment or rental property? Create a living trust? Receive any correspondence from the IRS? We need to know!

Call today for a tax planning appointment. The sooner we meet, the more time we will have for tax saving action.

Thank You!

Your business is appreciated.
Call us to discuss tax planning.
We thank you for your referrals!

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