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To: **Clients and Friends**

From: Neil S. Kahn
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Date: December 14, 2018

Subject: Highlights of tax code changes that affect the planning
 and filing of your 2018 and 2019 Income Tax Returns.

Since the passing of the Tax Cuts and Jobs Act of 2017, we have been digesting the tax reform it brought to the country. As we write this memo, there are areas that have not been addressed by the Internal Revenue Service. With the new tax laws comes a new set of planning opportunities. The effects of these changes will have an impact on all taxpayers and that means that 2018 tax returns will look much different than they have in the past.

For those that visit our office, Fred and Barney will be available most mornings before 11:00 a.m.

2018

TAX RATES

Single Taxpayers:

10	percent	\$	.00	to	\$ 9,525.00
12	percent		9,525.00	to	38,700.00
22	percent		38,700.00	to	82,500.00
24	percent		82,500.00	to	157,500.00
32	percent		157,500.00	to	200,000.00
35	percent		200,000.00	to	500,000.00
37	percent		500,000.00	and over	

Joint Filers:

10	percent	\$	.00	to	\$19,050.00
12	percent		19,050.00	to	77,400.00
22	percent		77,400.00	to	165,000.00
24	percent		165,000.00	to	315,000.00
32	percent		315,000.00	to	400,000.00
35	percent		400,000.00	to	600,000.00
37	percent		600,000.00	and over	

KIDDIE TAX

Applies to children under age 18 and children over 18 but under age 24 who are full-time students that have unearned income. There are exceptions to this rule.

There have been changes to this area of the law. Please contact us if you would like to discuss this further.

CAPITAL GAINS

The top capital gains rate has remained at 20% for single filers with taxable income over \$425,800.00 and for joint filers with taxable income over \$479,000.00. For single taxpayers whose taxable income is between \$38,600.00 and \$425,800.00 and joint taxpayers whose taxable income is between \$77,200.00 and \$479,000.00, the capital gains rate will remain at 15%. For single taxpayers whose taxable income does not exceed \$38,600.00 and joint taxpayers whose taxable income does not exceed \$77,200.00, the rate remains at 0%.

Capital assets held less than one year will continue to be taxed at the individual's tax rate.

Capital losses can be used to offset capital gains. If the losses are greater than the gains, you can deduct \$3,000.00 against other income. If you cannot utilize all your capital losses in the current year, you can carryover the unused loss to future years.

DIVIDEND INCOME

Certain dividends received by a shareholder will be taxed at the same capital gains rates. For most taxpayers the maximum rate has remained at 15%. For single filers with taxable income over \$425,800.00 and for joint filers with taxable income over \$479,000.00, the maximum rate has remained at 20%. For single taxpayers whose taxable income does not exceed \$38,600.00 and joint taxpayers whose taxable income does not exceed \$77,200.00, the rate remains at 0%.

PASS-THROUGH INCOME

This new deduction allows individuals, estates and trusts to take a deduction of up to twenty percent of "qualified business income" against the taxpayer's taxable income. Generally speaking, "qualified business income" is income from a partnership, S corporation or sole proprietorship.

There are a number of complex special rules, thresholds and phase-outs related to this new deduction.

ALIMONY (INCOME AND DEDUCTION)

For divorces finalized in 2019 and beyond, there is no deduction for alimony paid and alimony received is not includable in income.

INDIVIDUAL RETIREMENT ACCOUNTS

Annual limit remained at \$5,500.00, subject to income limitations.

For taxpayers aged 50 or older, a "catch-up" contribution is available. The amount is \$1,000.00. If you qualify for an Individual Retirement contribution, you qualify for this "catch-up" contribution.

HEALTH SAVINGS ACCOUNTS

Annual limit is \$3,450.00 for individual health coverage and \$6,900.00 if you have a family health plan.

For taxpayers aged 55 or older, a "catch-up" contribution of \$1,000.00 is available.

STUDENT LOAN INTEREST DEDUCTION

The maximum deduction remains at \$2,500.00. This deduction is "above the line", (you do not have to itemize your deductions to get this deduction). Phased out if your adjusted gross income, with certain modifications, exceeds \$160,000.00 for joint filers and \$80,000.00 for single taxpayers.

MEDICAL EXPENSE DEDUCTION

The threshold for deducting medical expenses has temporarily returned to 7.5% of adjusted gross income for all taxpayers.

This threshold increases to 10% for 2019 and beyond.

REAL & PERSONAL PROPERTY TAX, STATE AND LOCAL INCOME & SALES TAX

Taxpayers may now only deduct up to \$10,000.00 of combined real and personal property taxes, and state and local income or sales taxes.

MORTGAGE INTEREST

Taxpayers may now only deduct mortgage interest on qualified acquisition debt up to \$750,000.00.

Taxpayers may no longer deduct interest on home equity loans.

CHARITABLE CONTRIBUTIONS

For all charitable contributions of money, regardless of the amount, you must maintain a bank record of the contribution (a cancelled check, charge card receipts, or a paystub) in addition to a written record from the charity.

For all charitable gifts over \$250.00, you must have a letter detailing the amount of the donation and affirming that either no goods or services were provided in connection with the gift, or if goods or services were received, a description and a value of the item(s) received. This letter must be in your possession when your tax return is filed.

NON-CASH CHARITABLE CONTRIBUTIONS

Clothing and household items must be in good used condition or better. This rule does not apply to a contribution of any single item for which a deduction of \$5,000.00 or more is claimed.

For any single item donated with a value of \$5,000.00 or greater, a qualified appraisal must be made as part of your tax return.

For contributions of clothing and household items being valued at less than \$5,000.00 per item, photos of the items being donated will be best to prove the items were in good used condition or better.

MISCELLANEOUS ITEMIZED DEDUCTIONS

Miscellaneous itemized deductions that were subject to the 2% limitation are no longer deductible. This includes unreimbursed employee business expenses, union dues, investment expenses and expenses for the production or collection of income, among others.

STANDARD DEDUCTION

This has significantly increased to \$24,000.00 from \$12,700.00 for married individuals filing a joint return and to \$12,000.00 from \$6,350.00 for single individuals. An additional standard deduction of \$1,300.00 is allowed for married filers and \$1,600.00 is allowed for single taxpayers who are blind and/or over the age of 65.

DEPENDENTS STANDARD DEDUCTION

Cannot exceed the greater of \$1,050.00 or the sum of 350.00 and the individual's earned income.

PERSONAL EXEMPTIONS

There are no longer any personal exemptions.

BUSINESS USE OF PERSONAL VEHICLE

The standard mileage rate for business use of your personal vehicle has increased to 54.5 cents from 53.5 cents per mile.

EMPLOYER-SPONSORED RETIREMENT PLANS

Taxpayers who are participants in 401(K) plans, 403(b) annuities, and salary reduction SEP plans can now contribute up to \$18,500.00. For taxpayers aged 50 or older, the "catch-up" contribution remained at \$6,000.00.

For self-employed taxpayers who have no employees, 401(K) plans have become very attractive and affordable. This can be used alone or with other retirement plans.

For employers who are looking into setting up a retirement plan, they may be available to receive \$500.00 in tax credits for start-up costs, for up to three (3) years.

The compensation cap to determine contributions to retirement plans has increased to \$275,000.00 from \$270,000.00.

The maximum amount a plan participant can put into a defined contribution plan has increased to \$55,000.00 from \$54,000.00.

For profit sharing plans, the amount of your contribution, per participant, has remained at 25% of compensation.

MEDICARE TAXES

A 0.9% Medicare tax applies to wages and self-employment income of individuals with earnings exceeding \$250,000.00 for joint filers and \$200,000.00 for single filers.

In addition, there is a 3.8% "net investment income tax" on unearned income of individuals with earnings exceeding \$250,000.00 for joint filers and \$200,000.00 for single filers. This additional tax does not apply to qualified plan distributions or "active" LLC's, partnerships and S corporations.

DEPRECIATION

For equipment, furniture and fixtures and off-the-shelf computer software that qualify for a Code Section 179 expensing deduction, the deduction has increased to \$1,000,000.00 from \$510,000.00. This deduction is eliminated if your total qualified property purchases exceed \$2,500,000.00 during the year.

DEPRECIATION (CONCLUDED)

Taxpayers may now take 100% bonus depreciation on new and used property. This is in effect through 2023.

For acquisitions of sports utility vehicles with a gross vehicle weight of more than 6,000 pounds, Code Section 179 will be limited to \$25,000.00.

Luxury autos weighing over 6,000 pounds do not have to follow the rules for luxury autos listed below.

For acquisitions of luxury autos, the first year depreciation increased to \$10,000.00 from \$3,160.00. The second and third years increased to \$16,000.00 and \$9,600.00 from \$5,100.00 respectively. Succeeding years have increased to \$5,760.00 from \$1,875.00. The additional first-year depreciation for passenger automobiles remained at \$8,000.00.

For acquisitions of trucks or vans weighing less than 6,000 pounds that are modified in such a way that it is not likely to be used more than a de minimis amount for personal use, the first year depreciation increased to \$10,000.00 from \$3,560.00. The second and third years increased to \$16,000.00 and \$9,600.00 from \$5,700.00 and \$3,450.00 respectively. Succeeding years have increased to \$5,760.00 from \$2,075.00.

ENTERTAINMENT EXPENSES

Business entertainment expenses, including tickets to sporting events that were previously subject to the 50% limitation, are no longer deductible. Business meal expenses and meal expenses incurred while traveling on business are still 50% deductible. Meal expenses for office holiday parties are also still deductible.

Membership dues for any club organized for business, pleasure, recreation or other social purpose are also no longer deductible.

SOCIAL SECURITY TAX

The wage base increased to \$128,400.00 from \$127,200.00. The rate remained at 6.20 percent for wage earners and 12.40 percent for self-employed individuals.

ALTERNATIVE MINIMUM TAX

For 2018, the AMT exemption increased to \$109,400.00 from \$84,500.00 if married filing a joint tax return and to \$70,300.00 from \$54,300.00 for single individuals.

ALTERNATIVE MINIMUM TAX (CONCLUDED)

In addition, the phase out threshold has been increased to \$1,000,000.00 for married filing joint taxpayers and \$500,000.00 for single taxpayers.

The alternative minimum tax (AMT) is a separate method of determining income tax devised to ensure that at least a minimum amount of tax is paid by taxpayers who reap large tax savings by making use of certain tax deductions, exemptions, losses and credits. Without the AMT, some of these taxpayers might be able to escape income taxation entirely. In essence, the AMT functions as a recapture mechanism, reclaiming some of the tax breaks to taxpayers.

CHILD TAX CREDIT

The credit has increased to \$2,000.00 from \$1,000.00 for each qualifying child. The credit is phased out if your adjusted gross income, with certain modifications, exceeds \$400,000.00 for joint filers and \$200,000.00 for single taxpayers. These thresholds have increased drastically which will allow more taxpayers to take advantage of the credit.

HOPE/AMERICAN OPPORTUNITY TAX CREDIT

The credit has remained at \$2,500.00 per eligible student per year and is available for the first 4 years of postsecondary education. 40% of the credit is refundable.

Costs include course materials (e.g. books)

Phased out if your adjusted gross income exceeds \$160,000.00 for joint filers and \$80,000.00 for single taxpayers.

RESIDENTIAL ENERGY CREDIT

Available to individuals for the installation of residential exterior doors and windows, insulation, heat pumps, furnaces, central air conditioners and water heaters on their principle residence. These improvements must be new, can be expected to remain in use at least 5 years and meet certain requirements for energy efficiency.

The credit is 10% of the costs paid or incurred. In addition, there is a lifetime credit limit (since 2005) of \$500.00, which only \$200.00 may be used for windows.

AFFORDABLE CARE ACT

Taxpayers must report if they carried minimum essential health coverage or if they carried an exemption. If essential coverage was not maintained or an exemption was not obtained, a shared responsibility payment is required with filing of Form 1040.

AFFORDABLE CARE ACT (CONCLUDED)

The shared responsibility payment in 2018 remained at \$695.00 per adult and \$347.50 per child or 2.5% of household income, whichever is higher. The amount owed is 1/12 of the annual payment for each month that a person or person's dependents are not covered.

Beginning in 2019, the shared responsibility payment has been reduced to \$0.00.

Minimum essential coverage is employer-sponsored coverage, coverage through a state or federal Marketplace, Medicare, Medicaid, and other plans.

An individual is treated as having coverage for a month if they have coverage for any one day of the month. In addition, a short gap of three months or less generally will not subject an individual to the shared responsibility payment.

FOREIGN BANK (BROKERAGE) ACCOUNTS

All U.S. Taxpayers with offshore accounts totaling more than \$10,000.00 at any time during a year must file form TD F 90-22.1. The requirement applies to taxpayers with a signature authority or a "financial interest" - often ownership or control - in foreign bank or brokerage accounts. The penalty for failure to file this form is \$10,000.00.

In addition, if you had a signature authority or a "financial interest" in a foreign bank or brokerage account, no matter the amount in the account, it must be disclosed on Schedule B of your Form 1040.

GIFT TAX EXEMPTION

All taxpayers are allowed to gift monies to anybody they choose. This amount has increased to \$15,000.00 from \$14,000.00.

MICHIGAN USE TAX

When you purchase items for personal use outside the state and do not pay Michigan sales tax, and this purchase would have been subject to sales tax if purchased in the state, then you are required to pay use tax. The rate of tax is 6 percent of the total price (including shipping and handling charges). Simply put: If you purchased an item that you should have paid sales tax but you did not, then you owe use tax. This is now part of your income tax return. If you plan on filing a true, accurate and complete tax return you must include this information.

MICHIGAN INDIVIDUAL INCOME TAX

The tax rate remains unchanged at 4.25%

The Personal Exemption Amount has increased to \$4,050.00 from \$4,000.00.

CITY OF DETROIT NON-RESIDENT TAXPAYERS

The City of Detroit requires non-resident taxpayers who are employees that allocate less than 100% of their income to the City of Detroit to provide the following documentation:

Letter from their employer to verify actual number of days paid, days not worked and days worked in Detroit. The letter should also include the name, title, and phone number of the person signing the letter and should be on the official letterhead of the employer.

Documentation/work-log showing days/time worked in/out of the City of Detroit.

2019

TAX RATES

Single Taxpayers:

10	percent	\$	.00	to	\$ 9,700.00
12	percent		9,700.00	to	39,475.00
22	percent		39,475.00	to	84,200.00
24	percent		84,200.00	to	160,725.00
32	percent		160,725.00	to	204,100.00
35	percent		204,100.00	to	510,300.00
37	percent		510,300.00	and over	

Joint Filers:

10	percent	\$	.00	to	\$19,400.00
12	percent		19,400.00	to	78,950.00
22	percent		78,950.00	to	168,400.00
24	percent		168,400.00	to	321,450.00
32	percent		321,450.00	to	408,200.00
35	percent		408,200.00	to	611,600.00

STANDARD DEDUCTION

This has increased to \$24,400.00 from \$24,000.00 for married individuals filing a joint return and to \$12,200.00 from \$12,000.00 for single individuals. An additional standard deduction of \$1,300.00 is allowed for married filers and \$1,650.00 is allowed for single taxpayers who are blind and/or over the age of 65.

INDIVIDUAL RETIREMENT ACCOUNTS

Annual limit has increased to \$6,000.00 from \$5,500.00, subject to income limitations.

For taxpayers aged 50 or older, a "catch-up" contribution is available. The amount is \$1,000.00. If you qualify for an Individual Retirement contribution, you qualify for this "catch-up" contribution.

HEALTH SAVINGS ACCOUNTS

Annual limit increased to \$3,500.00 from \$3,450.00 for individual health coverage and to \$7,000.00 from \$6,900.00 if you have a family health plan.

For taxpayers aged 55 or older, a "catch-up" contribution of \$1,000.00 is available.

DEPRECIATION

For equipment and furniture and fixtures that qualify for a Code Section 179 expensing deduction, the deduction will increase to \$1,020,000.00 from \$1,000,000.00. This deduction is eliminated if your total qualified property purchases exceed \$2,550,000.00 during the year.

BUSINESS USE OF PERSONAL VEHICLE

The standard mileage rate for business use of your personal vehicle has increased to 58.0 cents per mile from 54.5 cents.

EMPLOYER-SPONSORED RETIREMENT PLANS

Taxpayers who are participants in 401(K) plans, 403(b) annuities, and salary reduction SEP plans can contribute up to \$19,000.00.

For taxpayers aged 50 or older, a "catch-up" contribution has remained at \$6,000.00.

SOCIAL SECURITY TAX

The wage base has increased to \$132,900.00 from \$128,400.00.

GIFT TAX EXEMPTION

All taxpayers are allowed to gift monies to anybody they choose. This amount will remain at \$15,000.00.

A MESSAGE REGARDING IRS SCAMS

Unfortunately, we live in an environment where we must be very cautious and skeptical of certain communications we receive. It is important to know that the Internal Revenue Service will never ever contact you via telephone or email without your initial request. Should you receive any communications that you find to be questionable, please contact us.

CONCLUSION

Our goal with this memo is to provide information that affects the majority of our clients. By working together and with proper planning, we may be able to take advantage of some of these changes and lower your tax obligations today and into the future. If you have children, grandchildren, or are saving for your retirement, there are provisions that become very important to you. If you are contemplating a financial transaction and are not sure of the tax implications or want to know more about a particular tax law change, please feel free to contact us.

Material discussed in this memo is meant to provide general information and should not be acted on without obtaining professional advice appropriately tailored to your individual needs.

In order to comply with requirements imposed by Treasury Department regulations, we inform you that any tax advice contained in this communication (including any attachments) is not intended to be used, and cannot be used, for the purpose of (i) avoiding penalties under Internal Revenue Code or (ii) promoting, marketing, or recommending to another party any transaction or any tax-related matters addressed herein.

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