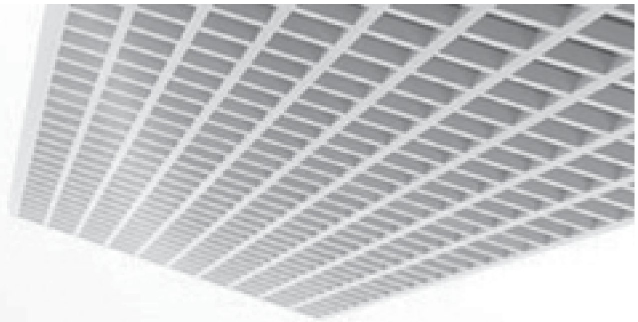

What's new that affects you?

A snapshot of the tax laws that affect your return

Recent tax law changes will likely have an effect on your 2018 returns. Most of the individual provisions are temporary and set to expire in 2025. Although the changes may simplify tax returns for some, there are many complex issues to consider. Your CPA can help you navigate these changes and minimize your tax liability to enhance your financial position.

Did you know?

- The standard deduction increased substantially, and there is no longer a deduction for personal exemptions. There were also many changes made to itemized deductions.
- The IRS never calls or emails about outstanding tax due. Be alert for tax scams!
- There is a new deduction available for qualified business income.
- For 2018, the penalty for not having health insurance is still in place. The penalty is reduced to zero starting in 2019.

- More people will be able to take advantage of the child care credit due to the increase in income phase-out limits.
- Home equity interest may still be deductible! Deductibility depends on several factors including how you spent the funds acquired from the debt.
- There is a $10,000 ($5,000 for married taxpayers filing separately) limitation on the deduction of state and local taxes.
- Key changes to the treatment of alimony could affect taxpayers finalizing their divorces after Dec. 31, 2018.

Talk to your CPA about these and other important issues.

New tax brackets for 2018

Rate	Single	Married filing jointly (and surviving spouses)	Heads of household	Married filing separately
10%	Up to $9,525	Up to $19,050	Up to $13,600	Up to $9,525
12%	$9,526–$38,700	$19,051–$77,400	$13,601–$51,800	$9,526–$38,700
22%	$38,701–$82,500	$77,401–$165,000	$51,801–$82,500	$38,701–$82,500
24%	$82,501–$157,500	$165,001–$315,000	$82,501–$157,500	$82,501–$157,500
32%	$157,501–$200,000	$315,001–$400,000	$157,501–$200,000	$157,501–$200,000
35%	$200,001–$500,000	$400,001–$600,000	$200,001–$500,000	$200,001–$300,000
37%	Over $500,000	Over $600,000	Over $500,000	Over $300,000

Alternative minimum tax (AMT)

When the AMT is triggered, the taxpayer must add back certain items and recalculate their tax at an established flat rate. They will pay the higher of the two amounts. If you paid AMT last year but do not owe it now, you may be eligible for a credit. Note that these exemption amounts are $70,300 for single filers, $109,400 for married filing jointly and $54,700 for married filing separately.

New standard deduction

The standard deduction was raised for all taxpayers in 2018. Those filing individually or as married filing separately will see a standard deduction of $12,000 while those filing jointly will see a deduction of $24,000. The standard deduction is $18,000 for taxpayers filing as head of household.

Tax laws affecting higher-income taxpayers

- Tax reform suspended the overall limit for itemized deductions for tax years 2018-2025.
- Net investment income tax (NIIT)
  - NIIT is a 3.8% tax on a broad range of income sources such as interest, dividends, capital gains, rental and royalty income, non-qualified annuities and passive business revenue. It affects individuals, estates and trusts above certain income levels.
  - Taxpayers are subject to NIIT if their modified adjusted income exceeds $250,000 married filing jointly, $200,000 single or head of household and $125,000 married filing separately.
- Taxpayers are subject to an additional 0.9% Medicare surtax on wages and self-employment income in excess of $250,0000 for married filing jointly, $200,000 single or head of household and $125,000 for married filing separately.
- For the 0.9% additional Medicare surtax, withholding is required only on wages above $200,000. If a couple's combined income exceeds $250,000, it's possible no Medicare surtax was withheld if each spouse earned below $200,000. This may result in under-withholding (and possible penalties). Ask your CPA whether you should pay estimates.

Important to check

Long-term capital gain (LTCG) rates:

0% (Single) up to $38,600
(Married filing jointly) up to $77,200
(Head of household) up to $51,700

15% (Single) $38,601-$425,800
(Married filing jointly) $77,201-$479,000
(Head of household) $51,701-$452,400

20% (Single) $425,800+
(Married filing jointly) $479,000+
(Head of household) $452,400+

Estate and gift tax:

- Gift tax exclusion: $15,000
- Estate tax lifetime exemption: $11.18 million

Don't forget FSAs or HSAs!

There are ways to reduce your taxable income by making pre-tax contributions to a flexible spending account to pay out-of-pocket medical expenses or contributing to a health savings account (HSA). Your insurance plan will determine which applies. This provides a way to obtain a tax benefit for paying medical expenses, since taxpayers can only deduct unreimbursed medical/dental expenses that exceed 7.5% of adjusted gross income.

Tax benefits and obligations

Higher education costs

- American opportunity tax credit (AOTC): up to $2,500 of federal tax credits for expenses related to a four-year degree, and $1,000 of this is refundable
- Lifetime learning credit: up to $2,000 per tax return for qualified tuition and related expenses

Child and dependent care costs

- Child tax credit: provides up to $2,000 per qualifying child under 17
- Child and dependent care tax credit: provides a credit of 20–35% of the cost of care up to $3,000 for one or $6,000 for two or more children under age 13, or a spouse or other dependent who is incapable of self-care

Charitable tax planning

There are many tax planning opportunities related to charitable giving even with the increase in the standard deduction. Working with a CPA on timing charitable deductions — consider bunching them in alternating years for example — is more important than ever.

- Evaluate both tax and philanthropic goals when making contributions.
- Consider donating appreciated property (especially securities you are considering selling).
- Consider a donor-advised fund to help with timing/control of contributions.
- Donation for services are usually not permitted (although out-of-pocket expenses related to services rendered are normally deductible).
- Contributions specified for certain individuals are not deductible (even if the related organization is a qualified charitable organization).
- Be aware of record keeping and contemporaneous a knowledgment requirements.
- Note any quid pro quo statements included on acknowledgments received.

Looking forward: What can you do to minimize taxes?

Planning for ways to minimize taxes is an ongoing process. Here are some items to consider:

- Maximize your retirement plan contributions to minimize income. For tax year 2018, the limit for 401(k)s (if you are under age 50) is $18,500. The limit is $24,500 if you are age 50 or older.
- Take full advantage of employer-sponsored programs that allow you to set aside pre-tax dollars for child care or medical expenses.
- Ask your CPA whether you will likely be subject to the AMT and how to minimize the impact.
- Shift to investments that are not subject to NIIT (e.g., exempt bonds).
- Offset any capital gains by harvesting losses in your taxable brokerage account.

Your CPA can advise you more on these and other strategies.

Self-employed or own a business?

Tax planning for your business is more important than ever with the new tax law. Be sure that your books and records are in good order (or contact your CPA for bookkeeping assistance) so you can review planning opportunities with your CPA.

Deduction for business income

Some businesses will qualify for a 20% deduction of qualified business income.

Purchases of equipment

- Bonus depreciation — A deduction of 100% of the cost of qualified property can be deducted in the first year of acquisition. In 2023, this percentage will decrease 20% until it becomes 0% in 2027. Used property is now included as qualified property.
- Section 179 — For tax year 2018, businesses can deduct up to $1 million of business property (computers, office furniture, etc.) placed in service during the tax year. This deduction now includes the purchase of certain improvements to commercial real property.

Retirement plans

Consider establishing a qualified retirement plan, such as:

- SEP IRA: May contribute up to the lesser of 25% of net income or $55,000
- 401(k): Employee deferral plan, plus profit sharing component

Meals and entertainment expenses

Expenses defined as entertainment are no longer deductible. However, business meals that meet certain criteria will still be deductible (generally 50% of the expense) as they have been in the past. Make sure that you have these items segregated in your books and records.

Health insurance

Evaluate your health insurance options to determine if you are eligible for a deduction for self-employed health insurance premiums (medical, dental or long-term care plans).

CPA