

O'Neil & Steiner, PLLC  
Specific Additional Guidance for Tax Year 2018

**1. ARIZONA TAX CREDITS:** Many valued clients have taken advantage of the opportunity to support schools and/or charities through tax credit contributions that can reduce income tax on a dollar-for-dollar basis. In other words, these programs allow you to self-direct your tax dollars to organizations you choose to support, instead of state politicians doing it for you. Donations for tax year 2018 can be made anytime through April 15<sup>th</sup>, in order to be claimed as credits on your 2018 return. Please visit our website and choose the “[AZ Tax Credits](#)” tab to find more information as well as links to the most common local recipients.

**2. COMPLETE YOUR SUBMISSION PAPERWORK EARLY (Engagement Letter & Election Form):** To streamline the process of submitting your tax information we are encouraging all clients to download the required *Engagement Letter* from our website at <https://www.oneilsteiner.com/tax-documents.html>. The *Engagement Letter* is located on the Tax Documents tab and should appear as a red button. Please choose the version that matches your marital status as of 12/31/18. The third page of the Engagement Letter is the new streamlined Standard Election Form. This is based on the most common answers to prior year forms across our client base. Please do not feel compelled to accept these elections, but rather review them and only initial the bottom if they accurately reflect your information and preferences. If one of more of the Standard Elections Form statements does not accurately reflect your information or preferences please download the Non-Standard Elections Form available separately, make a selection in each section and initial where indicated.

Also available at [www.oneilsteiner.com](http://www.oneilsteiner.com) under the tax documents tab are additional organizers, general information regarding topics commonly requested (or anticipated under the new regulations), and planning materials.

By printing & signing the engagement letter; initialing a version of the Elections Form; and completing organizers after reviewing information available on our website you will save time when submitting your information packet for preparation. Also, these steps increase the likelihood that your return will be able to be prepared without additional consultation time (via phone or email typically for missing or additional information) ultimately speeding up your refunds, reducing the chances your return has to go on extensions, and keeping fees to a minimum.

Please remember, if you are married, both spouses must sign/initial where indicated. If you are not able to print the letter, we would be happy to provide copies at our front desk, via email, or fax. The *Engagement Letter* and a version of the Election Form must be received before we can begin preparation services.

**3. TCJA - BIG CHANGES ARE HERE:** The Tax Cut & Jobs Act of 2017 was passed in December of 2017. However, the bulk of the new rules did not become effective until 2018. To keep us on our toes the new regulations are only in place through 2025. Beginning in 2026 we revert back to 2017 rules for the most part, unless the new reforms are extended or modified between now and then (one or the other is likely). Some of the items that were removed include:

- Personal exemption deduction,
- Tuition & Fees Deduction (though education credits still available for college expenses),
- Nonbusiness Energy Efficiency Credit (Doors, windows, insulation, roofs, HVAC units, etc. no longer qualify). (Credits for solar, wind, and geothermal electric and fuel cell property remain)
- Moving expenses deduction,
- Business entertainment deduction,

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- Income exclusion for Discharge of Qualified Principal Residence Indebtedness,
- Private Mortgage Insurance (PMI) and
- Miscellaneous itemized expenses subject to 2% floor (employee expenses, advisory fees, etc.).

Additional items that were modified include:

- Restrictions on deduction for mortgage interest,
- Charitable Donations limit increased from 50% of income to 60% of income
- Tax rates decreased for 5 out of the 7 individual income tax brackets,
- Increased standard deductions,
- Increased record keeping requirements for charitable donations
- Doubled child tax credits as well as increase to income thresholds in order to qualify
- Anticipated increase to medical expenses limitation was postponed until 2019 taxes
- Limitation on 50% deduction for meals as business expenses has been made more difficult
- Net Operating Losses are limited as offsets against current year income and no longer carried back, but carried forward indefinitely.
- Preparer penalties for due diligence have been significantly increased, which will result in additional preparation charges and/or consultation time needed to confirm statuses and qualifications for several credits and Head of Household filing status.

Last but not least some new items were added to the tax code. These include:

- 20% qualified business income deduction limited by income and business type, and participation
- \$500 Credit for dependents who fail to qualify for child tax credits (17 or older for example)

The above is not meant to be an exhaustive list, but a list of the items most likely to impact our clients.

**4. WITHHOLDING RATES REDUCTION:** As part of the reform the federal government made changes to withholding guidelines that increased net paychecks for employees beginning in January of 2018. Anytime there are adjustments to your withholding rates you should be concerned with whether the reductions in withholding will be matched by equal reduction in taxes based on your detailed and complete tax circumstances. If the total reduction in withholding throughout the year exceeds your tax savings you will receive a smaller refund, owe more, or go from a refund to owing tax. If the total reduction in withholding is equal to your tax savings you will have the same result as you would have if the tax reforms had not taken effect. If the reductions are less than your tax savings you will see a larger refund, owe less, or go from owing to receiving a refund. We suggest that you adjust your withholding with your employer as necessary to achieve your preferred tax outcome once you have a good idea of your tax liability with the new rules after having your 2018 returns prepared. If you anticipate large changes or are considering multiple options for tax year 2019 please don't hesitate to contract the front desk to schedule a consultation to discuss next year.

**5. HEALTHCARE COVERAGE REQUIREMENT:** The requirement to maintain qualified minimum essential healthcare insurance, or pay the Shared Responsibility Payment, is still in place for tax year 2018. According to current law the Shared Responsibility Payment will be reduced to \$0 beginning in tax year 2019 (unless they change the rules again at some point, which is always a distinct possibility). Coverage is reported on Forms 1095-A, B, and/or C. These forms report the months you were covered by minimum essential health insurance. Without minimum essential health insurance, unless you qualify for

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an exemption, you will be subject to the Shared Responsibility Payment generally referred to as the penalty.

Please include all Forms 1095-A, B, and C with other records when you bring us your returns. In addition, please review your information and provide information regarding gaps in health insurance coverage and exemption certificates for all members of your household unless everyone was covered for all twelve months. An individual is considered to be covered for any month as long as they had coverage for at least one day during the month.

Example: John covered with minimum essential coverage all year

Jane covered for all but March, April, May, June, and July

Jane received an exemption from the healthcare.gov marketplace for March and April. (Certificate included)

Johnny Jr. covered for all but June and July

**6. CHARITABLE CONTRIBUTION SUBSTANTIATION REQUIREMENTS:** Rules regarding the records you must keep in case of audit have been around for a while, but some of these were locked in as final regulations (rather than proposed). Unfortunately, the IRS has warned of increased audit of charitable donations after taxpayers have had audit findings related to overreporting, or inadequate record keeping. We don't want our clients to have this vulnerability. The records you must have to prove your donation increase depending on the value of the donation. Specific language is necessary as well, and some charitable organizations fail to meet the requirements. Letters required for substantiation should state whether the recipient organization provided **any goods or services in return for the contribution**, and if so, must give a good-faith estimate of the value of the goods or services. If you receive a letter that fails to include this language please be sure to call the charitable organization and request a letter that meets the requirements. Additional information is available in our Charitable Contribution Substantiation letter.

**7. APPEARANCE:** Your tax return will now appear to be on postcard size forms. Unfortunately, there will be a bunch of these postcard size forms, since they didn't truly reduce the complexity of returns, but rather divided prior full-size Forms into two half-sheet forms for the most part. Due to the change in forms and additional pages needed, and prior requests for pdf copies of taxes rather than paper copies we are considering modifying our practice to provide pdf copies by email or flash drive beginning with 2019 taxes, to be prepared in 2020. If you have an opinion to share please let Nickie know whether you would prefer to receive a pdf copy of your return via email next year, or a paper copy like you will receive this year. Regardless of unofficial survey results both options are available, and will remain so in the future, upon request.