YEAR-END TAX PLANNING

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Tax Planning for 2018 and Beyond

DO YOU KNOW WHAT YOU'LL OWE?

The end of the year presents a unique opportunity for you to look at your overall personal and/or business financial situation. When meeting with your trusted advisor, our goal is to help you understand your tax obligations, establish opportunities to reduce those liabilities and understand your cash flow needs when it comes time to pay uncle Sam. With factors such as tax reform, life changes or just working towards your goals, now is an especially important time to review your tax outcome for 2018.

In this newsletter, we'll highlight some things we'd like you to think through before the end of the year and help you determine if a tax projection will fit your planning needs.

WHAT IS IT?

It was a huge undertaking and many tax practitioners said it was impossible, but on December 22, 2017 major tax reform, commonly known as the Tax Cuts and Jobs Act (TCJA), was enacted. The Treasury released a one-page analysis on TCJA claiming the law would increase revenues by $1.8 trillion over 10 years. While the Joint Committee on Taxation's analysis of the law estimated the national debt will increase by $1.46 trillion.

No matter which way this new tax reforms plays itself out, we're potentially stuck with these new laws up to 2025. We're surely tied to these new rules for 2018. So, let's dive into the changes that may affect your tax returns this filing season.

TAX REFORM CHANGES FOR INDIVIDUALS AND FAMILIES

2018 TAX RATES

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

THE GOOD NEWS….

STANDARD DEDUCTION/EXEMPTIONS

Effective January 1st, 2018, the standard deductions increased. If you usually take the standard deduction the deduction is more than double what was available in the past. However, if you usually itemize deductions, you may not be itemizing your deductions this year now that the standard deduction is so high.

If you're planning to make a large donation to a charity or your local church to reduce your tax bill, you may want to consider if this is still a tax benefit considering the new changes.

CHILD TAX CREDIT

The maximum child tax credit increased to $2,000 per qualifying child. $1,400 of this credit can be refundable for each child. The major benefit here is the income phaseout on this deduction increased to $200,000 for single and head of household filers and $400,000 for married filers.

ALTERNATIVE MINIMUM TAX

Another bit of good that came out of tax reform, fewer taxpayers will pay the AMT. The new AMT exemption amount increased to $70,300 for single filers and $109,400 for married filers.

NEW DEDUCTION FOR INDIVIDUALS WHO HAVE QUALIFIED BUSINESS INCOME (QBI)

Effective Jan. 1, 2018, through Dec. 31, 2025, there is a potential 20% deduction for individuals who have qualified business income (QBI) from a partnership, S corporation or sole proprietorship. This deduction also applies to REIT dividends, qualified cooperative dividends and qualified publicly traded partnership income. If you have safe harbor estimates based on last year's earning, you may have a reduced tax bill due to this new deduction.

THE BAD NEWS…

ITEMIZED DEDUCTIONS

If you can itemize your deductions in 2018, TCJA further limited what expenses are deductible.

Taxes

Your total deduction for state income, real estate and property taxes is limited to $10,000 ($5,000 if married filing separately.)

Mortgage Interest

For homes acquired after Dec. 15, 2017, you may only deduct interest up to $750,000 of mortgage debt. The limit applies to the combined amount of loans (such as a home equity line.)

Additionally, the home equity interest deductible amount is now limited to the amount of the loan used to buy, build or improve your home. This means that, if you used your HELOC to pay personal expenses, it is no longer deductible.

Miscellaneous Deductions

This miscellaneous itemized deduction is completely obliterated. This means, if you have unreimbursed job-related expenses, such as union dues, business related-meals, travel and mileage, there is no longer a place to deduct these expenses on your personal income tax return.

Casualty Losses

This deduction is limited to taxpayers who have incurred a casualty loss in a federally declared disaster area only.

ALIMONY DEDUCTION

Planning on getting divorced? If so, it's best to finalize the agreement before year end. Any divorce or separation agreement executed on or after December 31st, 2018 results in the alimony payments being no longer deductible for the payer nor includable as income by the recipient.

NET OPERATING LOSSES (NOLS)

The carryback of NOLs is repealed effective for tax years ending after Dec. 31, 2017. NOLs generated for years beginning after 2017 cannot reduce taxable income by more than 80%. NOLs carryforward indefinitely.

THE GOOD NEWS….

529 PLANS

529 savings plans allow for annual tax-free distributions per beneficiary (regardless of the number of contributing plans) for qualifying expenses. Beginning in 2018, the federal rules allow these plans to fund the educational costs to cover students in grades K-12 who are enrolled in religious and other private schools. However, distributions for grades K-12 cannot exceed $10,000 per beneficiary and not all state-sponsored plans have adopted the expanded use of these funds.

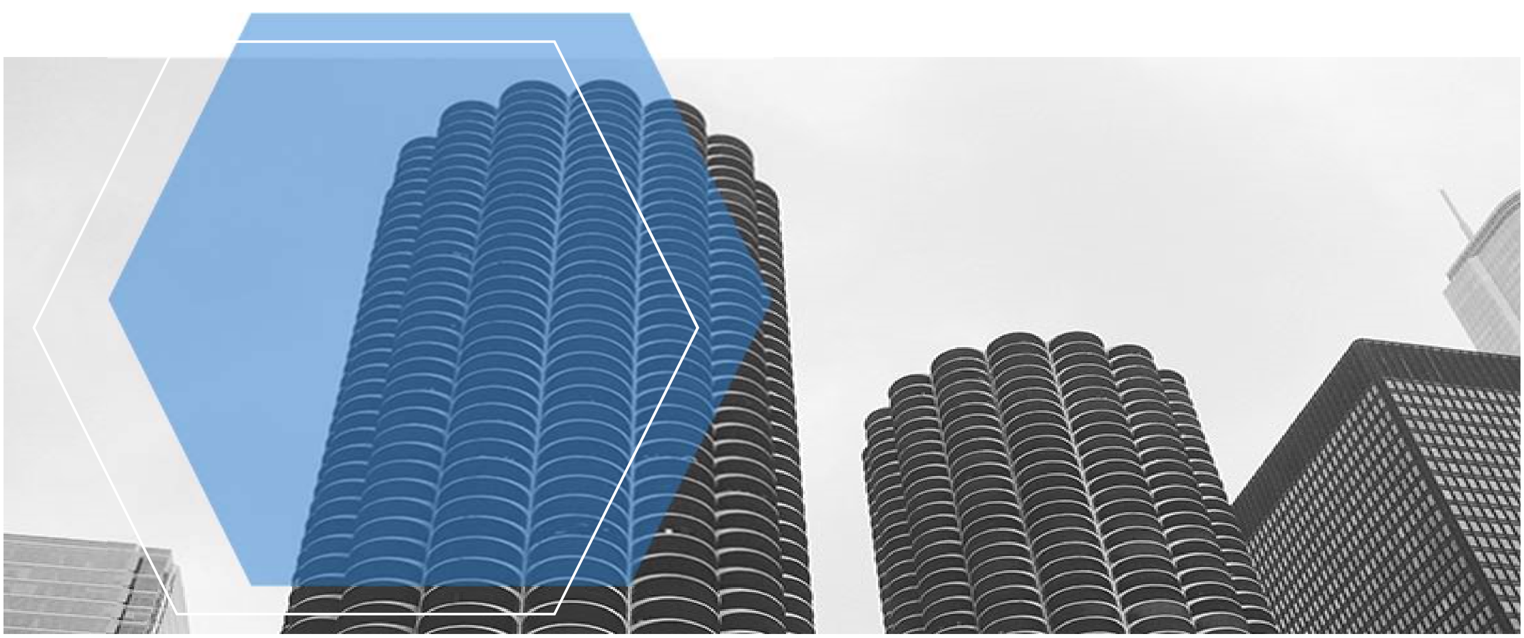
THE BAD NEWS…

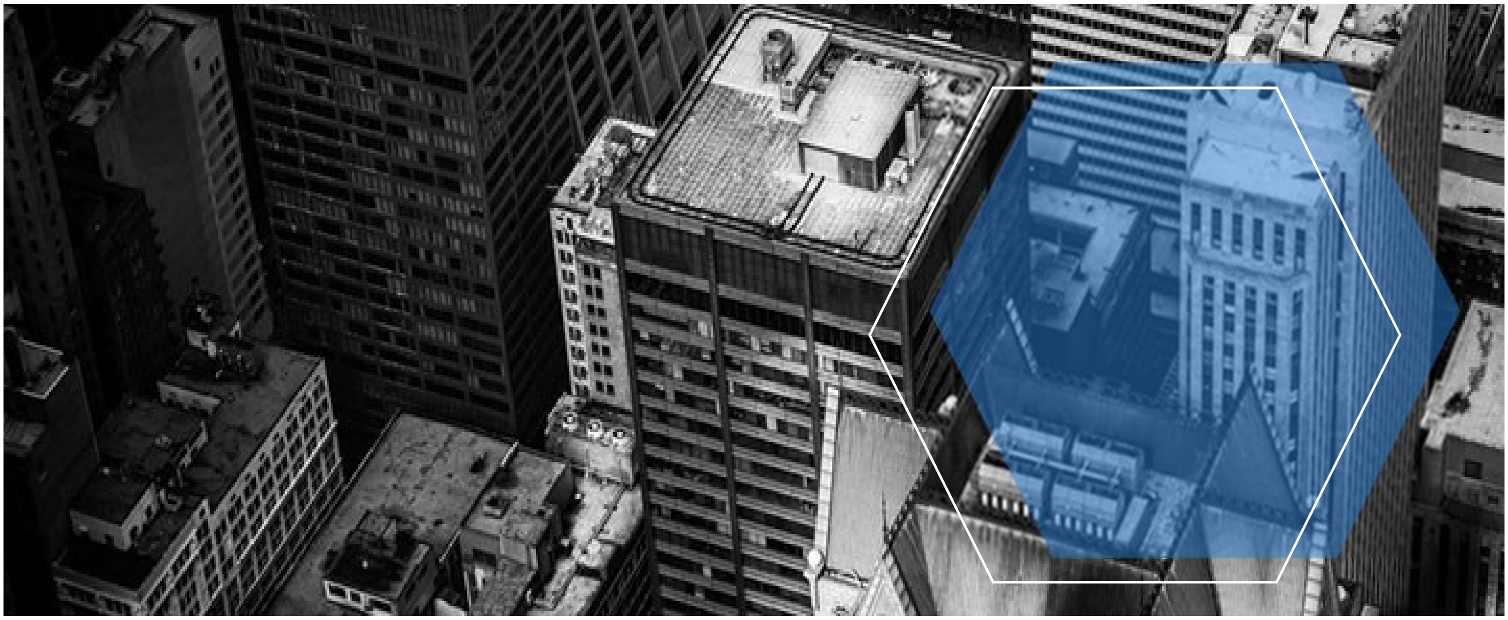
MOVING EXPENSES

Yes, these have been eliminated too! Unless you are a member of the U.S. Armed Forces on active duty, the moving expense deduction is no longer allowed. Conversely, any moving expense reimbursed by your employer is includable in your taxable wages as compensation.

SHARED RESPONSIBILITY PAYMENT (THAT IS, THE PENALTY ON INDIVIDUALS WHO DO NOT HAVE HEALTH INSURANCE)

The new law reduces the penalty to zero for tax years starting Jan. 1, 2019. <u>However, note that the penalty still is in effect for the 2018</u> calendar year, and even when the penalty goes away, other aspects of the Affordable Care Act are still in place.





TAX REFORM CHANGES FOR BUSINESSES

ENTERTAINMENT AND TRANSPORTATION EXPENSES

The tax act modifies the provision to disallow any deduction for activities generally considered to be entertainment, leisure, amusement or recreation; membership dues with respect to any club organized for business, pleasure, recreation or social purposes; and facilities used regarding the previous two items.

BONUS DEPRECIATION

Taxpayers can claim a 100% first-year deprecation deduction on qualified property. In 2023, there will be a phase out of 20% per year until 2027, when the first-year depreciation will be 0%. In addition, used property now is considered qualified property.

CORPORATE ALTERNATIVE MINIMUM TAX (AMT)

The corporate AMT is repealed effective for tax years beginning after Dec. 31, 2017.

SEC. 179 EXPENSING

The tax law increased the maximum Sec. 179 deduction to $1 million with the phase-out threshold for acquired property being $2.5 million. These amounts are indexed for inflation beginning after 2018.

NET OPERATING LOSSES (NOLS)

The carryback of NOLs is repealed effective for tax years ending after Dec. 31, 2017. NOLs generated for years beginning after 2017 cannot reduce taxable income by more than 80%. NOLs carryforward indefinitely. Special rules apply for farm NOLs.

DEDUCTIBILITY OF INTEREST EXPENSE

The deduction for business interest is limited to the sum of the following: business interest income, 30% of the adjusted taxable income, and the floor plan financing interest.

EMPLOYER CREDIT FOR PAID FAMILY AND MEDICAL LEAVE

A new credit may be claimed based on wages paid to qualifying employees while they are on family and medical leave, subject to certain conditions. The credit is a percentage of the amount of wages paid while on leave for up to 12 weeks per taxable year (12.5%–25% of wages, based on the rate of pay). IRS Notice 2018-71 provides guidance on eligible employers and how to calculate and claim this credit.

TAX REFORM CHANGES FOR BUSINESSES

(CONTINUED)

DOMESTIC PRODUCTION ACTIVITY DEDUCTION (DPAD)

The new tax act repeals the DPAD effective for tax years beginning after Dec. 31, 2017.

LIKE-KIND EXCHANGES (LKES)

The new law restricts the non-recognition of gain in an LKE to exchanges of real property effective for exchanges completed by Dec. 31, 2017.

PARTNERSHIP TECHNICAL TERMINATIONS

The new tax law repeals the Sec. 708(b)(1)(B) rule regarding technical terminations of partnerships effective Dec. 31, 2017.

EXPANSION OF ELIGIBILITY FOR MORE FAVORABLE ACCOUNTING METHODS

Taxpayers subject to Sec. 448 (other than tax shelters) with three-year average annual gross receipts of $25 million or less are eligible for the cash basis of accounting.

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TAX PLANNING FOR 2018 AND YOUR FUTURE

HOW WE CAN HELP?

By scheduling a planning session with us, we'll help you identify how tax reform affects your specific situation and what steps you can take to make it work for you. In these planning sessions we consider the benefits of maximizing deductions, revisit education planning with the new 529 plan rules, determine if your getting the most out of your entity choice and much more. Below are the tax planning packages we typically offer to our clients:

RETIREMENT PLANNING

Are you maximizing your retirement contributions? Should you consider making a Roth IRA conversion this year? We look at your specific situation and identify opportunities for retirement savings and their tax benefits.

BUSINESS ENTITY STRUCURE

We determine if making or terminating and S Corporation elections is appropriate for you. Or if you should take advantage of the flat tax rate available to C Corporations. Many factors must be considered, including the new Sec. 199A QBI deduction and state taxes.

TAX REFORM IMPACT

Not sure if you will itemize deductions this year or if you should up your charitable donations. Curious to see how the QBI deduction will affect you personally. In this projection we work with you or your business to determine your projected liabilities after tax reform.

We are at your disposal to identify opportunities within the new law that apply to you and help steer you away from new pitfalls and challenges. As always, planning ahead can help you minimize your tax bill and position you for greater success now and in the future. Please visit our website today to schedule your year-end tax planning meeting!