

## Individual 2018 Tax Season Tax Planning Tools

*Don't let tax considerations get in the way of sound business decisions. For example, the negative impact of these strategies on your cash flow might not be worth the potential tax benefit.*

**Retirement plans:** Funding your company 401(k) with pre-tax dollars could reduce current year taxes, as well as increase your retirement investment account(s). For 2018, the maximum 401(k) contribution you can make with pre-tax earnings is \$18,500. For taxpayers 50 or older, that amount increases to \$24,500. If you have a SIMPLE 401(k), the maximum pre-tax contribution for 2018 is \$13,000. That amount increases to \$16,000 for taxpayers age 50 or older. If certain requirements are met, contributions to an individual retirement account (IRA) may be deductible. For taxpayers under 50, the maximum contribution amount for 2018 is \$5,500. For taxpayers 50 or older but less than age 70 1/2, the maximum contribution amount is \$6,500. Contributions exceeding the maximum amount are subject to a 6 percent excise tax. Even if you are not eligible to deduct contributions, contributing after-tax money to an IRA may be advantageous because it could allow you to later convert that traditional IRA to a Roth IRA. If you already have a traditional IRA, an evaluation might be appropriate to determine if it might be appropriate to convert it to a Roth IRA this year.

**Property tax deduction:** All state property and income tax deductions are now limited to \$10,000 as an itemized deduction.

**Mortgage interest deduction:** You generally can deduct interest on up to a combined total of \$750,000 of mortgage debt incurred to purchase, build or improve your principal residence and second residence. Points paid related to your principal residence also may be deductible.

**Home equity debt interest deduction:** Interest on home equity debt, used for the purchase of a primary resident or improvement (debt limit of \$100,000) may be deductible. The Home equity debt is included in the above \$750,000 mortgage deduction limitation.

**Home sale gain exclusion:** When you sell your principal residence, you can exclude up to \$250,000 (\$500,000 for married couples filing jointly) of gain if you meet certain tests. Warning: Gain that's allocable to a period of "nonqualified" use generally isn't excludable.

**Accelerating income into 2018:** Depending on your projected income and tax bracket for 2018, you may consider accelerating income into 2018 if you expect 2019 income to be significantly higher.

**Accelerating deductions into 2018:** If you expect your taxable income and tax bracket to be lower in 2019 as compared to 2018, you might consider accelerating deductions to 2018.

**Deferring income into 2019:** If it appears that your taxable income might decrease in 2019 and you might be in a lower tax bracket in 2019, you might consider deferring taxable income into 2019.

**Deferring deductions into 2019:** If it appears that your taxable income might increase in 2019 with a higher tax bracket, it may be advantageous to push deductions into 2019.

**Net investment income tax:** A 3.8 percent tax applies to certain net investment income of individuals with income above a threshold amount. The threshold amounts are \$250,000 (married filing jointly and qualifying widow(er) with dependent child), \$200,000 (single and head of household), and \$125,000 (married filing separately). In general, investment income includes, but is not limited to: interest, dividends, capital gains, rental and royalty income, non-qualified annuities, and income from businesses involved in trading of financial instruments or commodities. Thus, while the top tax rate for

qualified dividend income is generally 20%, the top rate on such income increases to 23.8% for a taxpayer subject to the net investment income tax.

**Medicare tax:** An additional Medicare tax of 0.9 percent is imposed on wages, compensation, and self-employment income in excess of a threshold amount. The threshold amounts are \$250,000 (joint return or surviving spouse), \$125,000 (married individual filing a separate return), and \$200,000 (all others). However, the threshold amount is reduced (but not below zero) by the amount of the taxpayer's wages.

For married couples, employers do not take a spouse's self-employment income or wages into account when calculating Medicare tax withholding for an employee. If you and your spouse will exceed the \$250,000 threshold in 2018 and have not made enough tax payments to cover the additional .9 percent tax, you might consider having an additional amount deducted from your paycheck to cover the additional Medicare tax. Otherwise, underpayment of tax penalties may apply.

#### **Educational credits:**

- **American Opportunity credit.** The tax break covers 100% of the first \$2,000 of tuition and related expenses and 25% of the next \$2,000 of expenses. The maximum credit, per student, is \$2,500 per year for the first four years of postsecondary education.
- **Lifetime Learning credit:** If you're paying postsecondary education expenses beyond the first four years, you may benefit from the Lifetime Learning credit (up to \$2,000 per tax return).

Recent requirement for claiming educational tax credits: To claim an American Opportunity or lifetime learning credit or a deduction for education-related tuition and fees, you must have received a Form 1098-T. The form reports qualified tuition and related expenses that you paid to the educational institution. If you have educational expenses eligible for the credit or deduction, you should receive Form 1098-T from the educational institution by January 31, 2019.

**Foreign bank account reporting:** If you have an interest in a foreign bank account, it must be disclosed; failure to do so carries stiff penalties. You must file a Report of Foreign Bank and Financial Accounts (FBAR) if: (1) you are a U.S. resident or a person doing business in the United States; (2) you had one or more aggregated financial accounts exceeding \$10,000 any time during the calendar year; (3) the financial account was in a foreign country; and (4) you had a financial interest in the account or signatory or other authority over the foreign financial account. If you are unclear about the requirements or think they could possibly apply to you, please reach out to me.

There is a new deadline for filing the FBAR. The new due date has been moved up and it is now due April 15. However, a six-month automatic extension is available. If an individual is living (abroad) out of the country, the due date is automatically extended until June 15, with an additional four-month extension available until October 15.

**Affordable Care Act:** Under the Affordable Care Act, known also as Obama Care, there is a potential penalty, known as the "shared responsibility payment," for not having appropriate health insurance coverage. You may be liable for this penalty if you or any of your dependents didn't have health insurance for any month in 2018. Currently, effective for tax year 2019 this penalty has been eliminated.

**Energy-Related Credits:** Nonbusiness Energy Property, Residential Energy Efficient Property Credit, and Credits for Certain Motor Vehicles and Vehicle-Related Property.

The Solar Energy Credits are still good through 2019, and then are reduced each year through the end of 2021.

**Gift Tax:** Consider making gifts by the end of the year within the gift exclusion tax limits (\$15,000 per person, \$30,000 per couple). Because there is not a step up in tax basis provision related to gifts, careful analysis must be made related to the appropriateness of making gifts.

**Offsetting capital losses with capital gains:** Meet with your investment advisor for appropriate tax loss harvesting. Be careful of the 30-day wash sale rule.

**Health Saving Account (HSA):** If you do not currently have an HSA account, consider setting one up. Also look at the options of fully funding your current year HSA. An employee who chooses to participate can contribute up to \$3,450 for singles and \$6,900 for families during the 2018 plan year. If you and you spouse are 55 and older, then you can both contribute and extra \$1,000. Amounts contributed are not subject to federal income tax, Social Security tax, or Medicare tax. If the plan allows, the employer may also contribute to an employee's FSA.

During the year, employees can then use the funds to pay qualified medical expenses not covered by their health plan. These expenses can be co-pays, deductibles, medical products, dental and vision care, or eyeglasses and hearing aids. Interested employees should check with their employer for details on eligible expenses and claim procedures.

**Renting out your home:** Reach out to me if you rent out any portion of your home. There are special tax rules that might apply to you. You might not be required to pay income tax on home rental income that is rented less than 14 days in a calendar year.

**Business structure:** Do you have a business that is currently structured as a sole proprietorship? If yes, consider forming an S Corporation or an LLC at the beginning of 2019.

**Charitable monetary donations:** Donations to qualified charities are generally fully deductible for both regular tax and AMT purposes. Charitable donations can be limited based upon your income. For large donations appraisals and additional limitations could apply.

**Charitable car donations:** With stricter donation rules from the IRS, it might be financially advantageous to sell your car rather than donate your car.

**Kiddie tax:** In 2018, under the new Tax Cuts and Jobs Act (TCJA) the kiddie tax will be based on the much more onerous tax rates for trusts, instead of the tax rates of the child's parents on unearned income over \$2,100 like it was under the old (pre-TCJA) rules.

**529 College saving plan:** Consider setting up a 529 college saving plan and increasing / funding your 529 plan or Roth IRA. A 529 plan is a tax advantaged college savings plan operated by states, state agencies, or educational institutions. Coverdell Education Savings Accounts are another option.

**Will and trust(s):** Consider reviewing your current will and trust(s) with your estate and trust attorney.

**IRA / 401K / Pension owners that turned 70 1/2 in 2018:** You are required to start taking "RMD" Required Minimum Distributions from your IRA. Please consult your IRA administrator as to the timing of your RMD's and your required minimum distributions.

**Life Events and Miscellaneous Other Items:** Certain life events can also affect your tax situation. If you were married or divorced, had a birth or death in the family, lost or changed jobs, or retired during the year, we need to discuss the tax implications of these events.

Please call me as a valued client if you have any questions to discuss any of the above options / items and to determine whether your tax withholdings and / or estimated tax payments are sufficient for your expected 2018 taxable income.

**IRS Scams:** There has been a lot of IRS scams and fraud going around and it's something that I think you should be made aware of. Many taxpayers have encountered individuals impersonating IRS Officials in person, over the telephone and via email. We want you to understand how and when the IRS contacts taxpayers and help you determine if any contact you may have received is actually from an IRS Employee.

The IRS initiates most contacts through regular mail delivered by the United States Postal Service.

There are special circumstances in which the IRS will call or come to a home or business. Please go to this website to see if it's the IRS calling or knocking on your door.

<https://www.irs.gov/newsroom/how-to-know-its-really-the-irs-calling-or-knocking-on-your-door>

If you have any questions, please feel free to reach out to our office.

**2019 is going to be a great year!**

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