2018 TAX ESSENTIALS LETTER

IT'S TAX TIME AGAIN...

Once again, it's time to file and pay your taxes. Your mailbox should be filling up with the information you will need to get the job done.

Time to get organized

The following checklist will help you collect the documents needed to file your tax return. When all of the boxes are checked, you're ready.

□ **Your last 3 years' tax returns** *(new client)*. Maybe we can amend and save money.

□ **Social Security numbers and dates of birth** are needed for all taxpayers, spouses and dependents.

□ **Copy of Driver's License.** For taxpayer & spouse.

□ **W-2 Forms.**

□ **Your last paycheck stub of the year** is full of information.

□ **1099 Forms for interest, dividends, retirement, Social Security, and unemployment** need to be entered correctly to comply with the IRS matching program.

□ **Property tax statements** contain important information. They list the tax (deductible) and special assessments (not deductible).

□ **Forms 1098 for mortgage interest** need to be entered as printed. The IRS cross checks.

□ **Year-end statements from investment accounts** with transaction details for the year.

amount paid) is needed for the child care credit (*even if you are reimbursed at work*).

□ **Names, addresses, and Social Security numbers** from whom you received interest, or to whom you paid interest.

□ **Bankruptcy or divorce papers** (if applicable).

□ **If you paid an individual person $600 or more for services rendered in connection with your business,** please provide their name, address, and tax ID number.

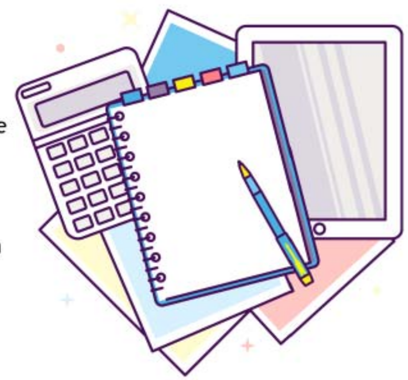
□ **Records showing income and expense for any business or rental property you own** will be needed. Records of business and personal mileage are required for automobile deductions.

□ **If you have an investment in a Partnership, S Corporation, Estate or Trust** you will need to bring Form K-1.

□ **Bring IRA year-end statements.**

□ **Bring all other statements of income,** whether you think they are taxable or not.

□ **Forms 1098-T** amounts paid for post-secondary tuition are sent to the student. If the student is your dependent you must get it from them. Bring receipts.



□ **Details on all noncash donations** greater than $500. Include date, place, fair market value, and original cost.

□ **If you purchased a new electric plug-in vehicle,** bring the year, make and purchase date.

□ **If you purchased solar-electric or solar water heating systems bring receipts.**

□ **Bring a voided check for direct deposit** of any refunds you expect to receive.

□ **Noncustodial parents claiming children** need a signed IRS Form 8332 to claim the child.

□ **If your mortgage was forgiven due to foreclosure,** bring Form 1099-C or 1099-A.

□ **If you bought a new home or refinanced your existing home** bring the closing papers.

□ **If you received Forms 1099-K for internet or credit card sales** please bring them.

WHAT'S NEW FOR 2018?

The Tax Cuts and Jobs Act was passed by Congress and signed by the President on 12/22/17. Approximately 85% of taxpayers will pay less in taxes under the new rules. The average tax savings is estimated at $1600 per return. Here is a list of the primary federal tax changes for individuals and business owners, <u>keeping in mind that the IRS has not yet issued final regulations</u>.

Individuals:

Tax brackets/rates shift downward, resulting in lower taxes for most taxpayers.

The **Standard Deduction** increases from $6,500 to $12,000 (single) and $13,000 to $24,000 (married).

Personal and Dependent Exemptions ($4,150 per person) are eliminated.

Deductions for state/local income taxes and property taxes are capped at $10,000 (sum total).

Interest deductions are capped for new mortgages with more than $750,000 in acquisition debt.

Home equity debt is no longer deductible unless used to buy, build, or substantially improve the home that secures the debt.

Miscellaneous Itemized Deductions are eliminated. This includes deductions for unreimbursed employee expenses, tax preparation , investment advisory expenses and certain legal fees (among others).

Casualty & theft loss deductions are eliminated (except in presidentially declared disaster areas).

The **medical deduction** income threshold increases from 7.5% to 10% beginning 1/1/19. You may want to consider paying large medical bills before 12/31/18.

The refundable portion of the **Child Tax Credit** increases from $1,000 to $1,400. The income phase-out for the **Child Tax Credit** more than doubles to $200,000 (single) and $400,000 (married).

A new $500 credit is available for dependents age 17+ (such as full time college students).

Alimony will no longer be taxable income for the recipient and deductible for the payer (for divorces finalized after 12/31/18).

The **Estate Tax** exemption is doubled to $11 million ($22 million for married couples).

The **Alternative Minimum Tax (AMT)** thresholds and exemption amounts were increased. Fewer taxpayers will pay AMT.

Re-characterizing (un-doing) a **transfer of funds from a Traditional IRA to a Roth IRA** is no longer allowed.

Distributions from **529 Plans** can now be used for K-12 tuition ($10,000 max per student per year).

The **penalty for not having health insurance** is eliminated starting 1/1/19.

Business Owners:

The TC&JA generally favors business owners. Most importantly, there's a new deduction called the Qualified Business Income Deduction (QBID).

Who gets to take the deduction? Profitable business owners (excluding C-corporations) with taxable income under $315,000 (married) and $157,500 (single) will get the deduction. If you make more than that it gets complicated, so lets focus on folks below these limits first.

How big is the deduction? Taxpayers below these income thresholds

tion deductions.

Example: Paul is a single consultant with $75,000 in QBI and no capital gains. His taxable income (after deductions) is $57,701. His deduction is 20% of $57,701, or $11,540. This saves him $2,539 in tax.

In the above example, Paul could have gotten a bigger deduction if his taxable income was higher. For example, he could have taken a side job or married a spouse with adequate wages to increase his taxable income, and thus get a larger QBID. However, Paul would not want his taxable income to get too high. That's because the rules are less favorable if your taxable income is above $157,500/$315,000 (single/married). Above these levels it matters what type of business it is. For example, service business (e.g. health, law, accounting, performers, consulting, athletes, financial services, plus others) see their deduction phase-out above those income thresholds. Those folks may want to contribute more to their retirement accounts (if possible), or buy expensive business equipment to reduce their taxable income and qualify for the deduction.

Business that are NOT services (e.g. manufacturing, retail, plus others) can have taxable income above these levels and still get the deduction. However, their deduction is limited by other factors such as total wages paid to employees and the value of certain business assets.

Amazingly, this only scratches the surface of the new deduction. For example, dividends from certain real estate investment trusts (REIT) and income from certain publically traded partnerships (PTP) also counts for the deduction.

In summary, the QBID rules are

Congress & the President made 2018 a year of major tax changes. Every taxpayer is affected, so spend a little time familiarizing yourself with the new rules.

These are only the highlights of the new laws affecting

Itemized deductions no longer phase-out. This helps taxpayers with adjusted gross incomes greater than $313,800 (married) and $261,500 (single).

The **moving expense deduction** is eliminated. Ask your employer to reimburse your expenses as they are no longer deductible.

The **Child Tax Credit** increases from $1,000 to $2,000 per child under 17 years of age. The re-

will generally get to deduct the lesser of; 1) 20% of Qualified Business Income (QBI), or 2) 20% of taxable income minus capital gains.

What is QBI? QBI is closely related to profits. If your business is profitable you likely will have QBI. There are some exceptions. For example, business owners with an extremely high mileage deduction might be profitable but not have QBI. Similarly, profitable landlords might not have QBI because of high deprecia-

In summary, the QBID rules are favorable but complex, so work with a professional to optimize your tax savings.

There are also some new rules that are NOT favorable for some businesses. For example, deductions for certain types of entertainment (e.g. sports tickets) is eliminated. Furthermore, the Domestic Production Deduction for businesses with employees that make products in the USA is eliminated.

your 2018 tax situation. A good tax professional can help you use these new rules to their fullest.