

# Clean Sweep Letter

## Time for a Clean Sweep



*Your tax return is a good window into your total financial picture.*

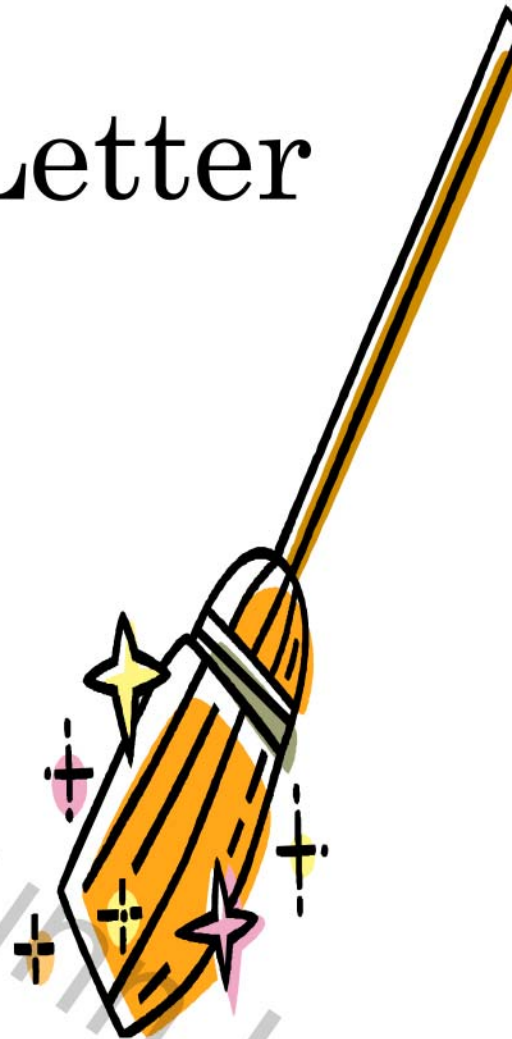
You can clean up your financial and tax life by reviewing your tax return. As you prepare to put the forms away, take a few moments to assess your situation:

Will your income or expenses change this year?

Did you like last year's results?

Have you ever taken a good look at your tax return? Maybe now's the time.

You can use this handy guide.



## Did you get a large refund?

**Owe too much?** Now is the time to change this situation.

If you owed so much that you paid penalties:

It might be wise to change your withholding at work by submitting a new W-4 with **fewer** dependents. If you are married, and claiming Married 0, you can

If you got a large refund:

Did you put the money to good use, or could you have used the money last year in a better way?

If you increased your exemptions on



## Take a look at your investment earnings.



**Lines 8, 9, and 13 on Form 1040 are a snapshot of your current investment portfolio.**

**Are they small or nonexistent?**

Perhaps a withholding change can help you build your nest egg. By increasing your exemptions on Form W-4, and depositing \$50 per month into a 1% savings account, you will have \$3,061 saved at the end of 5 years.

Did you know: Estimates indicate that 10.5 billion in loose change is sitting idle in American households? If you put just \$2 in loose change into the 1% savings account each week, you would have \$1,005 in 10 years.

**Did your investments create a tax burden?**

It might be wise to rebalance your investment portfolio: Long term capital gains are taxed at a lower rate than interest, so switching to tax-efficient mutual funds could decrease your tax burden.

Check to see if you have any losers that could be invested more wisely. You can offset your capital gains, plus \$3,000 of other types of income, with stock losses each year.

## Did you deduct a business loss on line 12 of Form 1040?

**The mere fact that you lost money on a business is a negative factor in your overall financial picture.**

It could also be a negative factor in your tax picture. Incorrect deduction of hobby losses amounts to \$30 billion in lost tax revenue a year, according to IRS estimates. With Congress and the IRS hot on reducing revenue losses, you should be aware that your business could be reclassified as a hobby. To get the point across, the IRS has created numerous special fact-sheets to highlight the problem. Visit the IRS Small Business and Self-employed tax center (in the business section) at [irs.gov](http://irs.gov) for resources and information to help you profit from your business.



To determine whether your business is a hobby, the IRS asks you to consider the following factors:

- Does the time and effort put into the activity show intention to make a profit?
- Do you depend on the income from the activity?
- Have you changed your methods of operation to improve profitability?
- Do you have the knowledge to make your business successful?
- Have you made a profit in the past?
- Can you expect a profit in the future?

## If your business is profitable there is a new deduction

Aside from avoiding the hobby rules mentioned above, The Tax Cuts & Jobs Act (TC&JA) has created another incentive for making your business profitable. It's called the Qualified Business Income (QBI) deduction. Here's how it works:

- **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 let's focus on folks below these limits first.
- **How big is the deduction?** Taxpayers below these income thresholds will generally get to deduct the lesser of: 1)



## Did you pay surtaxes or were you phased out of credits and/or deductions for IRAs, student loan interest, tuition, or children due to high income?



### Many tax deductions and credits phase out at certain income levels.

The best way to improve your present tax situation and your future retirement is by deferring more into your company's retirement plan. Increasing your retirement contribution will lower your income used to calculate the phase-outs.

Self-employed? You can put up to 20% of your net income into a SEP plan, thus reducing your income for each dollar contributed.

You can also offset your income with capital losses of up to \$3,000 each year, as explained earlier.

Consider investing in municipal

bonds. They're tax free for federal purposes.

Signing up for the Flexible Spending Account (FSA) at work can enable medical deductions that would not otherwise be deductible. It also reduces the income used to calculate the phase-outs.

No company FSA? Perhaps you could qualify for an HSA (Health Savings Account). You must be under 65, covered by a compatible high-deductible health plan, and have no other insurance to set up an HSA. For 2018, you can contrib-

ute up to \$3,450 (\$6,900 family) into the HSA and deduct the payment. This gets you a medical deduction without having to itemize. Withdrawals from the HSA are not taxed if used for medical expenses.

If you have children in day care, you can further reduce your income by signing up for pretax dependent care benefits.

You might also be able to contribute to a traditional IRA. The reduction that this contribution makes to your income might qualify you for the Retirement Income Savings Credit.

## Did you deduct charitable contributions on Schedule A?



*The rules for deducting charitable gifts are tight, (no proof - no deduction), and the IRS is paying attention. Congress has apportioned extra funding for audits as a part of the IRS's Tax Gap Initiative.*

**Cash donations** need to be substantiated with a receipt, cancelled check or a bank record to get a deduction. If you are still dropping cash into the collection plate at church, it would be a good idea to start writing a check. Small donations that you give to people who come around to your door can really add up. Remember to ask for a receipt. If you keep an envelope handy to collect the receipts, you'll have the documentation that is needed to satisfy IRS recordkeeping rules.

**Non-cash donations** need to be in at least good condition. Items of minimal value, such as socks and under-

wear could be disallowed. Make sure you get a receipt and document your deduction in detail. Make a list of your donated items with the fair market value and original cost. A photograph of the donated goods could also be helpful. And, make sure you get a receipt.

If you DON'T itemize on Schedule A you can still get a tax deduction if you are older than age 70½ and you give to a charity directly from an IRA. This is called a Qualified Charitable Distribution (QCD). As you tax advisor for details about this tax saving technique.

## Invest your tax savings in a Roth



# Record retention guide

Filing your tax papers away can be a chore. Perhaps you need to make a clean sweep of the file cabinet.

The IRS advises that you keep your tax returns forever, but much of the supporting documentation can be destroyed after the statute of limitations for the tax year is over (three years in most cases). You can use the following guide to help make your decision.

## 1 YEAR

Copies (misc.)  
Correspondence (routine)  
Duplicate deposit slips  
Stenographer's notebooks

Employee payroll records  
Inventory of products, materials and supplies  
Safety records  
Sales records  
Scrap and salvage records  
Stock and bond certificates (cancelled)  
Subsidiary ledgers

Divorce decrees, alimony and child custody agreements  
Financial statements  
General and private ledgers  
Insurance records (existing)  
Internal audit reports  
Journals  
Military records  
Minute books

## 3 YEARS

Appointment books  
Correspondence (general)  
Employee personnel records (after termination)  
Insurance policies (expired)  
Internal reports (misc.)  
Petty cash vouchers

Time cards and daily reports  
Voucher register and schedules  
Voucher for payments made

Property appraisals and records  
Retirement plan information (IRA, 401(k), etc.)  
Savings bond registration

## PERMANENTLY

Adoption papers  
Articles of incorporation  
Audit reports of accountants

Tax returns  
Training manuals  
Union agreements  
W-2/s/proof of income

## 5 YEARS

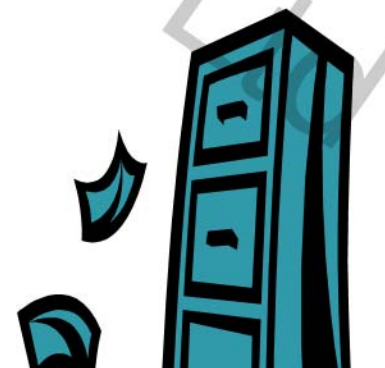
Invoices  
Loan documents  
Notes receivable ledgers and schedules  
Purchase orders

Birth certificates  
Bylaws  
Capital stock and bond records  
Cancelled checks (important payments)  
Cash books

## 7 YEARS

Accident reports and claims (settled)

Charts of accounts  
Citizenship papers  
Contracts and leases (expired)



Accounts payable ledgers and  
schedules

Bank statements

Brokerage statements

Cancelled checks (misc.)

Employee expense reports

Contracts and leases (expired)

Contracts and leases (existing)

Copyright, patent and trademark  
registration

Death certificates

Deeds, mortgages and bills of sale

Depreciation schedules

