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2018 Tax letter

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Helping Our Clients Navigate the Complexities of Tax

The Tax Cuts and Jobs Act (TCJA) of 2017 has been called the most extensive tax legislation in more than 30 years. It's certainly far reaching, covering individual income taxes, business income taxes, and estate taxes. The new law has many tax saving opportunities as well as possible pitfalls. Trying to grasp everything in the TCJA can be overwhelming. Over the past several months, we've studied and digested the many changes and have highlighted those changes we believe will have the most impact on our clients in this newsletter.

Fast Facts – TCJA Top 12

- **Individual tax rates are lowered by about** 2% at each bracket to 0%, 10%, 12%, 22%, 24%, 32%, 35% and 37%. Capital gain rates are unchanged at 0%, 15%, and 20% but attach at different income levels.
- **Personal exemptions** have been eliminated.
- **The standard deductions** have nearly doubled to $12,000 for individuals, $18,000 for head of household and $24,000 for married couples.
- **Property taxes (including real estate & motor vehicle excise) and state and local income** tax deductions are capped at $10,000.
- **The mortgage interest deduction** is preserved for new mortgages up to $750,000 and $1 million on existing mortgages. The $100,000 home equity debt interest is also still allowed BUT only if used to improve your home.
- **All miscellaneous itemized deductions** are gone such as: union dues, investment advisory fees, safe deposit box rental fees, tax preparation fees and unreimbursed employee expenses.
- **The child tax credit** is increased from $1,000 to $2,000. The credit begins to phase-out for families earning over $400,000.
- **The estate and gift tax exemption** is doubled to $11,180,000.
- **Alimony** payments for divorce agreements executed or modified after December 31, 2018, are tax-free to the recipient and no longer deductible for the payer.
- There is a new deduction for individuals who have **qualified business income** (QBI). The potential 20% deduction is for individuals who have QBI from a partnership, S-Corp or sole proprietorship (Schedule C).
- The penalty on individuals who do not have **health insurance** is NOT eliminated until January 1, 2019. This means if you do not have health insurance for calendar year 2018 you will be subject to the penalty.
- Your **tax return** WILL look different for 2018; think a postcard with a whole bunch of attachments!

The above new rules are set to expire after 2025.

TAX REFORM

Understanding the Tax Cut and Jobs Act (TCJA)

WHAT DOES IT MEAN FOR ME?

- **Fast Facts** – The 12 most important things to know about 2018 income taxes
- **To Itemize or Not to Itemize?** This is the question
- **TCJA & Retirement** QCD, ROTH & 401k Loans
- **Families with children** Child Tax Credit, The Family Credit & 529 Plans
- **Other TCJA Considerations** Capital Gains New tax deduction for pass-through entities

2018 Tax Season Important Matters

PLEASE READ

Visit our website for further tax news and more comprehensive explanations

www.APL2CPA.com

WILL YOU ITEMIZE IN 2018?

For 2018, as in prior years, taxpayers will need to determine if they are utilizing the standard deduction or itemizing their deductions on Schedule A of IRS Form 1040. It is estimated that only 5-10% of taxpayers will itemized this year as compared to 30% in prior years. The reason is twofold…

The Tax Cut and Jobs Act included a substantial **increase in the standard deduction** that each taxpayer is able to take *(see inset to the right)*. This change, combined with the reduction or **elimination of certain itemized deductions**, means fewer taxpayers will benefit from itemizing in 2018. So what is in and what is out?

To recap the ***Fast Facts*** on what can be itemized for 2018… taxes are capped at $10,000, mortgage interest is allowed for debt up to $750,000, charitable deductions are still allowed and ALL 2% miscellaneous deductions are gone. This includes unreimbursed job expenses, union dues, investment fees, safe deposit boxes and tax prep fees. Gambling losses are still deductible to the extent of winnings.

To determine if you will itemize review your 2017 Schedule A and apply the new rules.

If you do itemize there is more good news from TCJA as itemized deductions are NO longer limited for taxpayers at higher income levels. If you can't itemize some additional provisions of the TCJA were designed to offset this impact. Please read on.

Schedule A or…

Standard Deduction

$24,000
for married filing jointly

$18,000
for heads of household

$12,000
For all other taxpayers

$1,300 additional deduction for those over 65 or blind

How the New Rules Impact Retirees and Retirement Planning

☞ Charitable Giving – Use your RMD to donate to charity

The new law retains the right of taxpayers age 70 ½ and older to make contributions directly from their IRAs to qualifying charities. These qualified charitable donations (QCD) count toward the IRA owners' required minimum distributions, but the payout doesn't show up in taxable income. As more and more taxpayers claim the standard deduction rather than itemizing, QCDs stand out as a way to continue to get a tax benefit for charitable giving. If you are in the fortunate position of not needing your RMD/retirement distribution for living expenses, this is a great way to save on your tax bill. A QCD must adhere to the following requirements:

1. You must take the distribution by December 31, 2018.
2. The funds MUST be transferred directly from your IRA custodian to the qualified charity. So, if you already took your RMD for 2018 you cannot now donate the money to a charity. Once the money is in your hands it no longer qualifies for tax-free status.
3. Certain charities are not eligible to receive QCDs. Your financial advisor should assist you with the selection of your charity.
4. A QCD is reported by your IRA custodian as a normal distribution on IRS Form 1099-R. You must keep an acknowledgement of the donation from the charity for your tax records and provide that acknowledgement to us.

☞ ROTH Recharacterizations are no longer allowed

The new law will make it riskier to convert a traditional individual retirement account to a Roth. The old rules allowed retirement savers to reverse such a conversion—and eliminate the tax bill—by "recharacterizing" the conversion by October 15 of the following year. That could make sense if, for example, the Roth account lost money during the conversion period. Recharacterizing in such circumstances allowed savers to avoid paying tax on money that had disappeared. Starting in 2018, such do-overs done for conversions are now irreversible.

☞ Repayment of 401(k) loans

The new law gives employees who borrow from their 401(k) plans more time to repay the loan if they lose their jobs. Currently, borrowers who leave their jobs are usually required to repay the balance in 60 days to avoid having the remaining outstanding loan amount treated as a taxable distribution and hit with a 10% penalty if the worker was under age 59 ½. Under the new law, they will have until the due date of their tax return for the year they left the job.

☞ Inherited IRA's

Early on in the tax-reform debate, it appeared that Congress would put an end to the "stretch IRA," the rule that permits heirs to spread payouts from an inherited IRA over their lifetime. One plan that gained traction on Capitol Hill would have forced heirs to clean out inherited IRAs within five years of the original owner's death. Ultimately, though, this plan wound up on the cutting room floor. The stretch IRA is still available as long as the heir properly titles the inherited account and begins distributions, based on his or her life expectancy, by the end of the year following the owner's death.

WARNING! NEW SSA SCAM

People across the country have reported receiving calls from fake Social Security customer service representatives. The number displayed on caller ID is the real SSA call center number, 1-800-772-1213.

The caller then ask for your social security number to confirm your identity under the guise that they want to review your account or increase your benefits.

SSA would not do this.

NEVER give out your social security number, banking or other personal information!

How Tax Reform Affects Families

For 2018-2025, the TCJA new law doubles the standard deduction but eliminates personal and dependent exemption deductions, which would have been $4,150 each for 2018 under prior law. Taken together, the elimination of the dependent exemption and bigger standard deductions obviously helps some families and hurts others. For instance, non-itemizers with no children will come out ahead while those with more than two children who don't benefit from increased standard deductions will draw the short straw. But even for these families there is some good news in the form of expanded tax credits and tax-free use of income.

☞ Child Tax Credit (CTC) doubled AND more families may be eligible

The TCJA doubles the child tax credit to $2,000 per qualifying child under the age of 17. The TCJA also substantially increases the phase-out thresholds for the credit. The total credit amount allowed to a married couple filing jointly is reduced when their adjusted gross income (AGI) exceeds $400,000. Under the old law the threshold was $110,000. So, if you were previously prohibited from taking the credit because your AGI was too high, you may now be eligible.

In addition, the refundable portion of the credit has been increased to a maximum of $1,400 for each qualifying child. And the earned income threshold has been decreased to $2,500 (from $3,000 under prior tax law) — which also could potentially result in a larger refund.

☞ New Family Tax Credit (or Other Dependent Credit)

The TCJA also allows a NEW credit of $500 for any dependents over the age of 17. So, if you have seniors in high school or college age children this is available if you meet the income limits. In addition a disabled child of any age, and other qualifying (non-child) relatives qualify if all the dependency requirements are met.

As with the CTC, the Family Tax Credit phases out for adjusted gross income over $400,000 for married filing joint filers ($200,000 for single filers). Unlike the CTC, the $500 credit is nonrefundable.

☞ 529 Plans aren't just for college anymore

Qualified tuition programs (529 plans) have, in recent years, become a popular way for parents and other family members to save for a child's college education. Though contributions to 529 plans are not federally deductible, there is no income limit for contributors and 529 plan distributions are tax-free as long as they are used to pay qualified higher education. Qualified expenses include tuition, required fees, books and supplies. For half-time students, room and board also qualifies as a higher education expense.

The Tax Cuts and Jobs Act expands qualified distributions made after December 31, 2017. Plan participants may now withdraw up to $10,000 in expenses for tuition incurred at a public, private or religious elementary or secondary school.

☞ And the following family credits/deductions are still available under TCJA

- The education credits such as the American Opportunity Credit, Lifetime Learning Credit, and Student Loan Interest Deduction
- The Child Dependent Care Tax Credit for child-care expenses incurred so you can work. You can also still set aside up to $5,000 pre-tax through your employer, if available.
- Earned Income Tax Credit (EITC) for low-income families.

****The following tax documents MUST be provided to claim any of the above credits****

If you have dependents and are claiming the Child Tax Credit, Earned Income Credit, Education Credits or Head of Household status we MUST have PROOF of the child's residency. Even if you gave us something last year **we need proof** EVERY YEAR or we are subject to penalties. Acceptable documents must have the dependent's name and address; examples include: health insurance benefits statements, school report cards, doctors statements, or lease naming all residents of the house.

Individual Investor Considerations - Capital Gains

The TCJA retains the 0%, 15% and 20% rates on long-term capital gains and qualified dividends for individual taxpayers. However, these rates have their own brackets that are not tied to the ordinary-income brackets. Here are the 2018 brackets for long-term capital gains and qualified dividends.

	Single	Joint	HOH
0% tax bracket	$0-38,600	$0-$77,200	$0-$51,700
beginning of 15% tax bracket	$38,601	$77,201	$51,701
beginning of 20% tax bracket	$425,801	$479,001	$452,401

For higher income taxpayers the 3.8% net investment tax (NIIT) still applies

Business Owners – New Deduction for Self-employed and Pass-through Entities

Many small businesses are *pass-through* entities, including S-corporations, partnerships, and sole proprietorships (1040, Schedule C). The label indicates that all business earnings are passed through to the owners' personal income tax returns.
The TCJA contains a new tax benefit for pass-through entities. This provision is complex, but it is relatively straightforward for single taxpayers with taxable income below $157,500 in 2018, or $315,000 on a joint tax return.

Such business owners may qualify for a tax deduction that equals 20% of their qualified business income (QBI).

For taxpayers over $157,500 or $315,000 in taxable income, other factors come into play, which can reduce the QBI deduction. Moreover, some service businesses, such as medical practices, investment advisors, and law firms, don't merit the Q (for qualified) in QBI if their income is over certain limits.

How TCJA will impact the 2018 Tax Filing Season - **Important Please Read!**

We anticipate the upcoming tax season to be busier than usual as we try to absorb and interpret the daily onslaught of guidance from the IRS on the TCJA rules and apply these rules to our clients. Our ultimate goal (as it has always been) is to ensure that no new deduction or tax opportunity is overlooked and that your 2018 tax return is prepared accurately.

Towards this effort, we are implementing certain procedural changes we hope will help maintain our quality and efficiency during the compressed 10 week tax season.

Tax Season Office Hours:

Monday	8:00am – 11:00am
Tuesday - Thursday	9:00am – 6:00pm
Saturday	9:00am – 1:00pm

We will try to keep the office CLOSED to foot traffic on FRIDAY.
We will be here, of course, working diligently, if you really need us!

We also have a locked mailbox by the front door if you want to drop off your tax documents after hours.

Office Appointments:

This year, for clients who need an appointment, one will be scheduled AFTER the tax return is complete. This will allow us to determine how the new tax regulations specifically impact your return and more effectively communicate changes to you.

There will be NO appointments at drop-off.
If you feel you have a tax situation that requires an upfront meeting please call our office to schedule.

Submitting Your Tax Documents

The tax arena is rapidly changing and we must change with it. By utilizing certain cloud-based electronic tools available to send and receive data we become more efficient, effective and relevant. We strongly encourage everyone to submit your documents electronically using one of two below options. Please be assured we have put into practice every safeguard available to maintain your privacy and data integrity.

- Electronic Tax Organizer: We will be sending e-Organizers in January to clients we think will welcome this method. The e-Organizer lists the tax forms you had the previous tax year providing a "roadmap" for 2018. The e-Organizer also provides a platform to upload your tax documents securely. If you do not receive an email from us but would like to utilize this option, please let us know.
- ShareFile Client Portal: Many of you have already used the portal to submit your documents electronically. This method is still available and can be used alone or in conjunction with the e-Organizer. You can access your previously established folder OR request that one be set up by going to our website at www.APL2CPA.com/portal/

Please try to have ALL your tax documents together before you submit your paperwork. We will not start your return until we have ALL the documents. If your paperwork is not received by the deadline of March 23, 2019 your return will be put on extension and an $85.00 extension fee will be charged.

Tax Preparation Fees

We have always strived to deliver exceptional service to you at a fair price. To continue to provide this level of service it is necessary for us to consider a price increase for many of our clients. We will determine this on a client-by-client basis. The reason for this increase goes far beyond the usual inflationary pressures. The accounting industry continues to be hit with tax law changes and additional regulation. Our software fees have increased as the software company works through the myriad of tax changes associated with this tax reform. The new regulations require additional education for staff while security pressures and identity theft necessitate the need for new technology and cyber insurance.

We greatly value the relationships we have established over the years and hope you can appreciate the need for the increase. Thank you for your continued trust.