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November 2018

Individual Tax Newsletter

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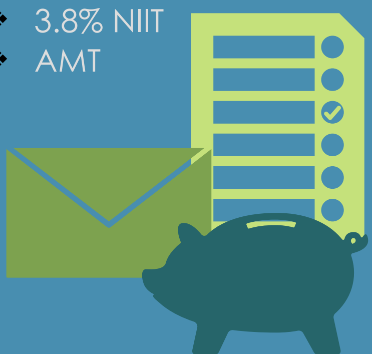

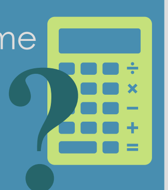

TAX TOPICS:

Tax Filing "Simplification"

The draft of the new postcard filing includes six new accompanying schedules - so much for reporting simplification!

Caution: Payroll Withholdings Changed in 2018

With the lowering of the tax rates, the payroll withholding tables were also lowered so everyone should have less federal withholdings from their W-2 wages and 1099R pension or IRA distributions. Even though tax rates are lowered, the tables do not take into account all of the details of a taxpayer's situation. If your payroll withholdings have been lowered, you can expect a possible balance due.

New: Marriage Penalty

The marriage penalty is mostly removed. In the reformed tax brackets, the married filing jointly income thresholds are exactly double the single thresholds for all but the two highest tax brackets eliminating the marriage penalty for everyone except married couples who earn over $400,000.

New: Standard Deduction and Personal Exemptions

The higher standard deduction really is a simplification - not a tax cut. The standard deduction has almost doubled for all filers, but the valuable personal exemption has been eliminated. New tax law Standard Deductions are:

Single	$12,000
Married Filing Jointly	$24,000
Married Filing Separately	$12,000
Head of Household	$18,000

New: Child Tax Credit

To ensure the removal of the personal exemption does not disproportionately impact larger families, the Child Tax Credit has been expanded. The expanded credit is available for qualified children under the age of 17. The bill doubles the credit from $1,000 to $2,000 while also increasing the amount of the credit that is refundable to $1,400. But the biggest change is that a taxpayer's adjusted gross income can be dramatically higher to get this credit:

Tax Filing Status	Old Phase-out Threshold	New Phase-out Threshold
Married filing jointly	$110,000	$400,000
Individuals	$ 75,000	$200,000

If your children are 17 or older and meet certain qualifications or you take care of other qualifying relatives, the taxpayer can receive a nonrefundable $500 credit that is subjected to the same income thresholds above.

Even though the dependency exemption is gone, Form 8332 for divorced taxpayers is still required if you are claiming a child tax credit for a child who does not live with you more than 50% of the year.

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TAX TOPICS CONTINUED:

New: Kiddie Tax

Taxes on the unearned income for a child under 18 or a dependent student (age 19-23) have changed significantly and are now assessed at the much higher estate/tax rates. The filing threshold for 2018 kiddie taxes is unearned income over $2,100.

Capital Gains Taxes

The general structure of the capital gains tax system is not changing with rates of 0%, 15% and 20% depending on the taxpayer's income level. Here are important points to be aware of:

1) Short term capital gains are still taxed as ordinary income. Since the income brackets have changed significantly, short-term gains could be taxed at a higher rate.
2) The long-term capital gains tax rate income thresholds remain similar to what they were under old tax laws.

Capital Losses

The maximum net allowable capital loss (after offsetting with gains) in one year is $3,000. If your net loss is greater than $3,000, the excess is carried forward to future tax years

The 3.8% Net Investment Income Tax

The 3.8% Net Investment Income Tax remains intact. This tax is imposed on net investment income for taxpayers when their adjusted gross income hits $200,000 (single), $250,000 (married filing jointly), and $125,000 (married filing separately).

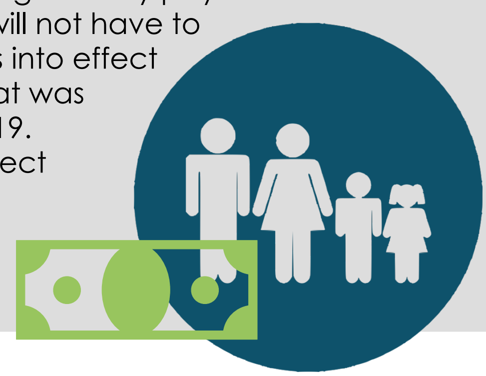
New: Alternative Minimum Tax

Alternative minimum tax is a parallel tax system that is used to ensure high-income earners are not escaping taxation. Since more & more taxpayers were being subjected to this tax, the new tax laws permanently adjusted the AMT exemption rates for inflation to address this problem. This means no AMT for many high income earners.

INCOME TOPICS:

New: Alimony

The new tax law states that the person making alimony payments is not allowed to deduct them and the recipient will not have to claim the payment as income. The law goes into effect for any divorce or separation agreement that was signed or modified on or after January 1, 2019. Alimony in place prior to that date is still subject to the old tax rules.



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INCOME TOPICS CONTINUED:

Foreign Income Reporting

Taxpayers are required to report any foreign cash accounts if the value exceeds $10,000 at any time during the year. **A $10,000 civil penalty may be imposed on any person who fails to report foreign income on FinCEN Form 114 and submit the form separately from the taxpayer's Form 1040 with a new due date of April 15th.** If you have foreign assets greater than $50,000 they must be reported on Form 8939 and submitted with Form 1040. This penalty could increase to $100,000 and jail time if it is a willful violation.

It is your responsibility to let us know if you have any foreign income, off shore accounts, or foreign assets so they are reported properly.

CREDITS:

The Child and Dependent Care Credit

The Child and Dependent Care Credit allowing parents to deduct qualified child care expenses is being kept in place. The credit can be up to $1,050 for one child under 13 years of age or $2,100 for two children. Also, up to $5,000 of income can be placed in a dependent care flexible spending account (FSA) on a pre-tax basis to help with child care expenses. Both cannot be used to cover the same child care costs, although it is possible for parents to take advantage of both the FSA and the credit. For example, if you have two or more children and child-care expenses exceed $5,000, you can set aside up to $5,000 in a pretax FSA and claim the dependent care credit for up to $1,000 for the child care expenses that exceed the $5,000.

Education Tax Breaks

The American Opportunity Credit and the Lifetime Learning Credit and Student Loan Interest Deductions remain in place. It is very important to provide us with Form 1098T to calculate this credit.

New: Sec 529

A significant change that the bill provides is the expansion of the available use of funds in a 529 college saving plans to include other levels of education outside of college. Money in a 529 college savings plan may now also be used for tutoring or private school tuition in grades K-12 tax free. There are credits available for Virginia residents who make 529 plan contributions, but it must be a Virginia specific plan to qualify for the credit. Rollovers may cause you to have a taxable event.

SCHEDULE A DEDUCTION TOPICS:

New: Mortgage Interest

Under the new tax laws this deduction is only allowed to be taken on mortgage debt up to $750,000. However, this only applies to mortgages obtained after December 15, 2017 - pre-existing mortgages will be grandfathered in. The $750,000 mortgage limit is the total combined for a primary and secondary/ vacation home. Home equity loans may or may not be deductible depending on the circumstances as the loan must be used to "buy, build or substantially improve" the home that secures the loan and the total of all loans cannot exceed the $750,000 limit. Therefore, previously deductible Home Equity Loans may not be deductible. Mortgage insurance premiums are currently not deductible for 2018, but this deduction could be extended again, so you should still report this amount to us.

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SCHEDULE A DEDUCTION TOPICS CONTINUED:

New: Charitable Contribution

Charitable deductions remain mostly the same with two notable changes.

1. Donations up to 60% of the taxpayers income can be deducted, up from the previous 50% cap.
2. Donations made to colleges in exchange for athletic ticket purchase rights can no longer be deducted.

Taxpayers are required to have receipts, bank records, or written documentation for all charitable contributions. No deductions for cash contributions are allowed without receipts; therefore, you will need a receipt if you give cash, even cash offerings in church! Be sure to give us a copy of your receipts for any donations. The IRS is focusing on this deduction so be prepared to defend this deduction.

All non-cash items (clothing, household items, appliances, etc) must be in good condition or better for contributions made after 8/17/06. Written documentation is required to take this deduction and the IRS has been asking for this documentation in their examination process. Since we have no knowledge of the condition of the items you donate, it will be necessary for you to place a detailed description and value on the receipt for any donated items. **We cannot and will not place a value on any blank receipts we receive and you will receive no deduction**. Go to www.satruck.org for the Salvation Army Valuation Guide to value your donated goods. Valuations above $5,000 require an appraisal.

PLEASE NOTE:

We cannot and will not place a value on any blank receipts we receive and you will receive no deduction.

Please go to www.satruck.org for the Salvation Army Valuation Guide to value your donated goods. Valuations above $5,000 require an appraisal.

Donating Vehicles

If you give away a vehicle and the fair market value is greater than $500, you will need written documentation from the charity stating the amount the charity received when they resold your vehicle. You will only be allowed a deduction for the amount received from the sale and not the blue book value unless the charity is using the vehicle. The charity will send you a Form 1098-C which you must provide to us for this deduction.

Donating Appreciated Stock to Charity

As an example: If you purchased stock for $1.00 per share and the fair market value is now $10.00 per share and you held the stock for more than one year, you can avoid paying capital gains on the $9.00 increase in price by gifting it to a qualified charity. Not only that, you receive a charitable contribution deduction for the fair market value of $10.00 per share when you only had an out-of-pocket expense of $1.00 per share. This transaction must be well documented with a letter from the charitable organization and proof of the fair market value on the date that it was gifted. Remember: If you have stock that has declined in value, you should sell it first to take the tax loss and then give the cash from the sale to charity.

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SCHEDULE A DEDUCTION TOPICS CONTINUED:

New: Medical Expense Deduction

The medical expense deduction threshold is now 7.5% of adjusted gross income (AGI) - down from 10% of AGI. Meaning, if your AGI is $100,000 you may now deduct unreimbursed medical expenses over $7,500, down from the $10,000 threshold required by previous tax law. This specific provision goes back up to 10% for 2019.

New: Obama Care Penalties

The tax reform bill repeals the individual mandate - there will no longer be a tax penalty for those who do not buy health insurance. However, this specific change does not go into effect until 2019 and therefore for 2018 the penalty can still be applied. If you received a subsidy in 2018 we MUST have Form 1095-A to reconcile the subsidy with your income.

New: HSA Contribution Limits

Contribution limits for HSAs are increasing for 2018. The new limit will be $3,450 (single) and $6,900 (family) coverage.

New: Moving Expense Reimbursement Benefits

Qualified moving expense reimbursements will now be taxable to the employee (except Military) and will be reported as wages on your W2.

New: The SALT Deduction

The SALT ("state and local taxes") deduction remains intact, but the bill limits the total itemized deductible SALT amount to $10,000 - including income tax, sales tax, real estate tax, and property taxes.

New: Miscellaneous Itemized Deductions

These deductions are no longer allowable for the 2018 tax year:

- Casualty and theft losses (unless attributed to a federally declared disaster)
- Unreimbursed employee expenses
- Tax preparation expenses
- Other miscellaneous deductions previously subject to the 2% AGI cap
- Investment & Advisory expenses
- Moving expenses (except Military)
- Employer-subsidized parking and transportation reimbursement

RETIREMENT TOPICS:

401K Retirement Contributions

401(k), 403(b) and most 457 plans, as well as the Thrift Savings Plan can now contribute up to $18,500 for 2018 and up to $19,000 for 2019. Catch-up contributions for savers 50 years and older are still capped at $6,000 per year for a total contribution of $24,500 per year to their 401(k) accounts for 2018 & $25,000 for 2019.

IRA Contributions

The maximum contribution amounts for both Traditional IRAs and Roth IRAs remain at $5,500 if you are under 50 years of age, plus an additional $1,000 if you are age 50 or older ($6,500).

RETIREMENT TOPICS CONTINUED:

IRA Deduction Limits

Putting money into a Traditional IRA is a good idea, but can be very tricky. If you are eligible to participate in a retirement plan with your employer or your income exceeds $101,000 (Married Filing Jointly) or $63,000 (Single), you are limited on how much is deductible. You may want to make the contribution anyway, but it is necessary to track the non-deductible amounts on Form 8606. If the non-deductible amounts are not tracked, you could end up paying tax on the money twice. We are not able to help you track the non-deductible contributions unless you report the contribution amounts to us.

Roth IRA

The Roth IRA remains very appealing because the distributions will not be taxed when withdrawn, as long as the money is in the account for at least 5 years and the taxpayer is age 59 ½ at the withdrawal date. You are not eligible to make a 2018 Roth contribution once your adjusted gross income exceeds $199,000 (Married Filing Jointly) or $135,000 (Single). If you have concerns about the taxation of a distribution or limits for contributions, please contact our office before the distribution is made.

Converting a Traditional IRA to a Roth IRA

Anyone can convert money they have already invested in a traditional IRA into a Roth IRA. You will owe tax on whatever amount you have converted from the traditional IRA to the Roth IRA minus any amounts that were non-deductible contributions (these amounts must have been reported previously on Form 8606). After paying the tax on the conversion in the year of conversion, you will never pay any tax in retirement or when it is withdrawn from the Roth. Please contact us before a planned conversion to discuss the tax implications.

Required Minimum Distributions (RMD)

RMDs must be taken by December 31st each year to avoid a penalty. If you just turned 70 ½ during 2018, you can wait until April 1, 2019 to take your first distribution, but then you will have to take two taxable distributions in 2019. In most cases, we recommend taking the first RMD during the 2018 year and not doubling up income in a future year.

Social Security Earnings

If a taxpayer started to draw social security benefits prior to full retirement age, the maximum amount of earnings they can make in 2018 is $17,040 and the maximum for 2019 is $17,640. The maximum amount that a taxpayer's wages can be taxed for social security purposes in 2018 is $128,400 and $132,500 for 2019.

Social Security Retirement Planner

If you are looking toward retirement, go to http://www.ssa.gov/retire to access the Social Security Retirement Planner, which will walk you through the retirement application process and offer information on issues to consider when applying for benefits. You will find online calculators to help you through the process of estimating future earnings based on past and present earnings.

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BUSINESS TOPICS:

New: Qualified Business Deduction

There are vast changes to the way pass-through business income is taxed in the new tax code. This will include income earned by: sole proprietorships, LLCs, partnerships, S corporations and income from rental properties. Under the new law, 20% of pass-through income could be deductible. This means, if a small business makes $100,000 in profit for 2018, $20,000 may be deducted before regular income tax rates are applied, depending on the taxpayers taxable income, as there are limits…. professional business services such as lawyers, doctors, consultants, athletes may be limited based on their taxable income. Phase in and limitation calculations begin at $157,500 for single filers and $315,000 for pass-through business owners who file a joint return. The full calculation involves a multistep process, but can be a lucrative deduction for many taxpayers. The limits are firm though - if you have $1 over the limits, then the deduction is fully lost.

Mileage Rates

The standard business mileage rate for the 2018 year is 54.5 cents per mile. Mileage for charity and volunteer work remains at 14 cents per mile. Medical mileage has increased to 18 cents per mile and military moves can take an 18 cents per mile deduction.

Qualified Business Deduction :

There are vast changes to the way pass-through business income is taxed in the new tax code.

Under the new law, 20% of pass-through income could be deductible depending on the taxpayers taxable income.

Rental Properties

Owning a rental property that generates a loss will not give you a current-year tax break if your income is greater than $150,000 (less if married filing separately) unless you are in the business of real estate management. Once your adjusted gross income reaches $100,000, your losses will begin to phase out as a current-year deduction. The disallowed losses will carry forward until the year that your income drops below $150,000, you sell the property or you have passive income. Please contact our office prior to signing any contracts if you intend on selling your rental so we can review the tax consequences.

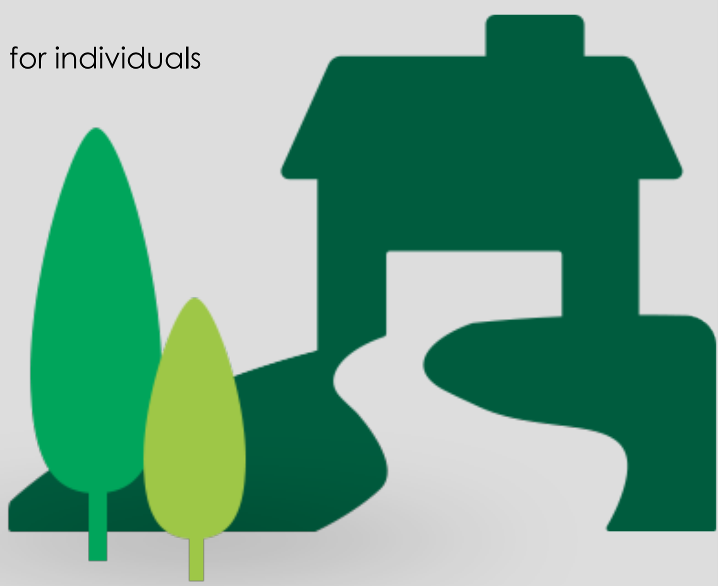
ESTATE TOPICS:

New: The Estate Tax Exemption

Starting in 2018, the new lifetime exemption is $11.18 million for individuals and $22.4 million for married couples which will eliminate most from paying the estate tax.

Gifts

Giving a gift to an individual or family member is not a tax deduction, but instead can cause the individual giving the gift to owe tax. The IRS has limits as to the amounts an individual can give before the taxpayer is required to file a gift tax return and possibly owe gift tax on the money. This amount is $15,000 for 2018.
As a taxpayer, you can give up to $15,000 to any other individual before you are required to file a gift tax return. Keep track of gifts over $15,000, as they will reduce the taxpayer's unified estate credit.



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OUR OFFICE REQUIREMENTS:

Estimated Income Tax Payments

Taxpayers are required to provide us with proof of payments for the estimates (either cancelled checks or online payment confirmations). Inconsistency of what the taxpayer reports to us and the actual payments made is our largest disconnect with the IRS and the States.

Extensions

The IRS needs valid numbers that are realistic when an extension is prepared or they can deny it. The taxpayer could be subject to 'failure to file' and late penalties. Contact our offices **no later than April 1, 2019, and provide estimated income** if an extension is required.

For extensions contact our offices **no later than April 1, 2019**, and provide estimated income

Quick Questions

Quick questions frequently do not constitute quick answers for us. We charge consulting fees for services that take longer than 15 minutes to research or answer. If we have to prepare estimated tax payments, tax projections, W-4 planners or reconstruct stock basis there will be a minimum fee of $75. If we spend one hour or more providing services due to the complexity of the answers there will be an hourly charge for consulting fees.

IRS Phone Scams

The IRS does not call taxpayers making threats to throw taxpayers in jail or demand payment or iTunes cards to be transferred immediately to keep a taxpayer from being handcuffed. If your receive such a call, rest assured the call is a scam and hang up!

TAXPAYER QUESTIONNAIRE:

The Taxpayer Questionnaire will be sent out the first week in January and must be returned to our office with all complete tax documents before your return will be processed.

WE NEED VERIFICATION FOR:

- Health care insurance coverage for each month in 2018
- Bank routing **and** account numbers for direct deposit of refunds
- Estimated tax payments made (must have proof of payment)
- Foreign income sources and account information (if applicable)

It will be necessary for the taxpayer to review and approve his or her tax return before we transmit the data electronically to the IRS and the state.

PRIOR TO FILING WE MUST RECEIVE: a signed Form 8879 (The IRS e-filing form) **and** payment for the tax preparation services.

DEADLINE: *Please be sure to have all of your tax information to us by March 29th before 5 pm for timely processing. There will be a late processing fee for all information (including signed 8879 Forms) received by us after 5 pm on March 29, 2019.*