Tax Tips For You.. *Now!*

❑ Another Charitable Strategy

Take advantage of the Qualified Charitable Deduction (QCD) with your Required Minimum Distribution (RMD). The requirements are simple:

- the IRA owner must be at least age 70 ½
- the maximum dollar amount for any individual from his/her IRAs is limited to $100,000 per year
- only distributions from an individual IRA (including a rollover IRA) are eligible
- the distribution must go directly by check made specifically to a public charity and cannot go to a private foundation, nor may it go to a charitable supporting organization or a donor-advised fund
- the charitable distribution must be one that otherwise would have been eligible for a full charitable deduction under IRC Section 170 *–and–*
- satisfies the Required Minimum Distribution (RMD) for the taxpayer

BENEFIT: The benefit of doing a QCD from an IRA is that the distribution comes out of the IRA without any of the tax consequences that would otherwise apply to a withdrawal (i.e., it is excluded from income altogether). Notably, there is no charitable deduction for making the QCD contribution to the charity, but only because it was already entirely pre-tax (having come directly from a pre-tax IRA).

❑ Adjustments to Income

If you don't itemize you can forget about deducting things like mortgage interest and taxes. But there are still some tax deductions – known as above-the-line deductions – you can take without itemizing. Technically speaking, these are not

See "Tax Tips" below

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Your Tax Calendar

June 15 - 2nd quarter estimated tax payments due.

Sept 15 - 3rd quarter estimated tax payments due.

Sept 15 - Deadline for extended S-Corporation and Partnership returns.

Oct 15 - Extended Returns for 2018 due.

Call anytime if you have questions.

"Tax Tips" from above

deductions at all, but adjustments to income. But, just like a deduction, they reduce your taxable income.

The Tax Cut & Jobs Act (TCJA) eliminated adjustments to income for employee moving expenses during 2018 through 2025 but, is scheduled to return in 2026.

The adjustments to income that remain under the TCJA include:

- *Self-employed health insurance. People who are self-employed can* deduct health insurance premiums up to the amount of the profit from the business.
- *Health savings account contributions.* You can deduct Health Savings Account (HSA) contributions you make with personal funds.
- *Retirement plan contributions by self-employed taxpayers.* These include annual contributions made by self-employed people to their retirement plans, such as SEP-IRAs, SIMPLE IRAs, Keogh plans, and solo 401(k) plans.
- *IRA contributions.* Contributions to IRA accounts (subject to annual

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TAX NEWS & TIPS

MID YEAR 2019

Tax Reform – The Good, The Bad & The Ugly!

The Good

The standard deduction nearly doubled.
For single filers, the standard deduction increased from $6,350 to $12,000; for married couples filing jointly, it increased from $12,700 to $24,000.

The child tax credit expanded.
The child tax credit doubled to $2,000 for children under age 17. It's also available, in full, to more people. The entire credit can be claimed by single parents who make up to $200,000, and married couples who make up to $400,000.

There's a new tax credit for non-child dependents, like elderly parents.
Taxpayers may now claim a $500 temporary credit for non-child dependents. This can apply to people for whom you provide support, such as children over age 17, elderly parents or adult children with a disability.

Fewer people are subjected to the alternative minimum tax (AMT).
The alternative minimum tax ensures people who receive a lot of tax breaks still pay some federal income taxes. It remains for individuals; however, fewer people will have to worry about calculating their tax liability under the AMT because the exemption has been raised to $70,300 for singles, and to $109,400 for married couples.

Corporate tax rates reduced.
The corporate tax rate has been cut to 21%.

Pass-through entities also get a break.
The tax burden by owners, partners and shareholders of S-corporations, LLCs, sole practitioners and partnerships, who pay their share of the business' taxes through their individual tax returns has been lowered via a 20% deduction.

Almost everyone is exempt from the estate tax.
Before tax reform, few estates were subject to the estate tax, which applies to the transfer of property after someone dies. Now, even fewer people will be affected. The amount of money exempt from the tax – previously set at $5.6 million for individuals, and at $11.2 million for married couples – has been doubled.

The Bad

Personal exemptions are eliminated.
Previously, you could claim a $4,050 personal exemption for yourself, your spouse and each of your dependents.

The state and local tax deduction is now capped.
The state and local tax deduction (SALT) remains in place for those who itemize their taxes, but now there's a $10,000 cap. Previously, filers could deduct an unlimited amount for state and local property taxes, plus income or sales taxes.

The mortgage interest deduction has been lowered.
Current homeowners are in the clear. Anyone buying a new home will only be able to deduct interest on the first $750,000 of their mortgage debt. The previous limit was $1 million. Some Loan Refinances may affect deductibility. Home equity interest deduction is mostly eliminated (some home equity interest remains deductible…check with me).

The tax deduction for alimony payments is history.
Alimony payments are no longer deductible for the person making the payments. Likewise, recipients of alimony will not be required to claim those payments as income. This provision will apply to couples who sign divorce or separation paperwork after December 31, 2018.

The deduction for moving expenses is eliminated.
There may be some exceptions for members of the military. But most people will no longer be able to deduct the cost of their work-related move.

Casualty Losses are limited.
Losses sustained due to a fire, storm or theft that aren't covered by insurance used to be deductible if they exceeded 10% of adjusted gross income. Now through 2025, taxpayers can only claim a deduction if they've been affected by an official national disaster.

…and The Ugly

Review your federal tax withholding ***NOW!*** Last year at this time I suggested

See "Tax Reform" on page 3

Still Searching For That Refund?

You may contact the IRS Website www.irs.gov at the "Where's my Refund?" link to check the status of your refund. You will need the social security number of the primary taxpayer on your tax return, your filing status and your refund amount.

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threshold limits) may be deductible, depending on your income.

- *50% of self-employment taxes.* If you're self-employed, you can deduct half of the 12.4% Social Security tax on net self-employment income, up to an annual ceiling, and a 2.9% Medicare tax on all net self-employment income.
- *Penalty on early savings.* withdrawals. You can deduct from your income penalties you had to pay to banks and other financial institutions because you withdrew your savings early from certificates of deposit or similar accounts.
- *Student loan interest.* Up to $2,500 of student loan interest is deductible from your gross income provided that your Adjusted Gross Income—before subtracting any deduction for student loan interest—is below a ceiling amount.
- *Alimony.* You can also subtract amounts you paid in alimony, that is, a court-ordered payment to a separated spouse or divorced ex-spouse. You can't include child support payments. The TCJA eliminates this deduction starting in 2019 for any divorce or separation agreement executed after Dec. 31, 2018 or executed before that date but modified after it (if the modification expressly provides that the TCJA applies).
- *Moving Expenses for Armed Forces members.* Members of the Armed Forces on active duty (or their spouse or dependents) who move pursuant to a military order and incident to a permanent change of station may deduct their moving and storage expenses.

Be sure to keep good records of all such expenses, even if you don't itemize.

❑ New 1040-SR

Lawmakers have been trying for years to cut seniors a bit of a break at tax time, and the Bipartisan Budget Act of 2018 finally took a step in that direction by simplifying tax filing for individuals aged 65 and older. They'll have their own tax form, the 1040-SR.

It's intended to be like the now defunct 1040-EZ in several ways and much easier to negotiate than Form 1040. This tax form was first proposed in 2013 as part of the Seniors Tax Reconciliation Act. The AARP, the National Taxpayers Union, and the Association of Mature Americans all supported the bill; however, it never won the approval of the Senate.

The Bipartisan Budget Act (BBA) was signed into law February 2018. The BBA required that the Internal Revenue Service create and publish Form 1040-SR.

Why the New Form Is Better…

Many seniors were forced to file the far more complicated Form 1040 simply by virtue of the nature of their retirement incomes and their ages.

The 1040-EZ prior to its demise was limited to those with income from wages, salaries, tips, unemployment compensation, taxable scholarships, and fellowship grants. Dividend income was restricted to Alaska Permanent Fund payments. Most important, taxpayers age 65 and older were not permitted to file the 1040-EZ.

Notice what's missing from this list of income types: Social Security retirement benefits and income from qualified retirement plans or annuities. The 1040-EZ did not allow these types of income. Most retired taxpayers are no longer earning a lot in the way of wages, salaries, or tips, and they're not receiving scholarships.

Form 1040-EZ also limited overall income to $100,000 and interest income to $1,500 annually. The 1040-SR doesn't put a limit on interest, dividends, or capital gains, nor does it cap overall income.

…And Why It's Not Better

Unfortunately, some older taxpayers will still find themselves left out in the cold, faced with tackling the formidable Form 1040 at tax time. Those who are not yet 65 and who have Social Security income, pension income, or other forms of retirement income can't use Form 1040-SR because of the age requirement; and because Form 1040-EZ (even if it still existed)didn't include Social Security and pension income, they couldn't use that, either.

These taxpayers did have the option of filing the now also defunct Form 1040-A, but this return didn't allow for itemized deductions. It also capped total income at $100,000 just as the 1040-EZ did, although it imposed no limit on interest income and it didn't close the door on income from retirement benefits and Social Security.

Requirements for Filing Form 1040-SR

Taxpayers can reach their 65th birthday at any time during the tax year—even Dec. 31—to qualify for using the 1040-SR. But, the tax form imposes a few other qualifying restrictions in addition to the age rule.

The tax form for seniors also disallows itemized deductions. You must claim the standard deduction for your filing status if you choose Form 1040-SR, but since the Tax Cuts and Jobs Act has almost doubled the standard deductions for all filing statuses this shouldn't be much of a hardship. Plus, seniors age 65 or older are also entitled to an extra standard deduction of $1,300.

Filers do not have to be retired yet to qualify.

Only time will tell if the new Form 1040-SR really is easier or if it just complicates already complex filing options. The language included in the BBA obligates the IRS to make the new tax form available for "tax years beginning after the date of enactment."

❑ Max Wages Subject to Social Security Tax

The Social Security Administration (SSA) announced that the maximum amount of wages subject to Social Security taxes increased from $127,200 in 2017 to $128,700 in 2018 and will increase to $132,900 for 2019. Earnings above the $132,900 amount are not subject to the Social Security portion of the payroll tax or used to calculate retirement payouts.

❑ Earnings Limits Have Increased

The annual earnings limit for those who both work and claim Social Security benefits will increase to $17,640 ($600 increase over 2018) in 2019 for individuals who opt to receive benefits early (ages 62 through 65). For those who turn 66 in 2018, the earning limit increases to $46,920 ($1,560 increase over 2018).

Extension Filed?

October 15 is the extended return filing deadline, but April 15 was the deadline for your tax payments. Continue to gather documents that were missing earlier and search for any items necessary to verify Schedules with incomplete information. Let's file as soon as we have all your information.

Myth vs. Truth

Myth:
529 Plans can only be used for college tuition.

Truth:
A "529 plan" has traditionally referred to a college savings plan, the earnings of which are tax-deferred, and distributions from which are income-tax-free. Under the TCJA, taxpayers may be able to use their 529 plans to pay for private elementary school or secondary school.

Myth:
I can itemize and deduct on my Federal Income Tax Return my travel expenses for my job that are not reimbursed by my employer.

Truth:
Previously, when a taxpayer itemized, they could deduct the amount of their miscellaneous itemized deductions that exceeded 2 percent of their adjusted gross income. These expenses are no longer deductible on the federal return. Caution: These expenses MAY still be deductible on your state income tax return. You should continue to keep documentation on any unreimbursed employee expenses for that reason…call me to see if this includes you! These expenses include unreimbursed employee expenses such as uniforms, union dues and the deduction for business-related meals, entertainment and travel.

Myth:
I was a low-income first-time homebuyer a few years ago and now tax reform has made my mortgage interest non-deductible since the standard deduction is higher.

Truth:
Maybe. The Mortgage Credit Certificate (MCC) Program is a homebuyer assistance program designed to help lower-income families afford home ownership. The program allows home buyers to claim a dollar-for-dollar tax credit for a portion of mortgage interest paid per year, up to $2,000. The remaining mortgage interest paid may still be calculated as an itemized deduction.

After an MCC is issued, the homeowner receives a tax credit equal to the product of the mortgage amount, the mortgage interest rate, and the "MCC percentage," a rate the administering Housing Finance Agency (HFA) sets between 10 and 50 percent.

To be eligible, individuals must be first-time home buyers, meet the program's income and purchase price restrictions, and use the home as his/her primary residence.

Myth:
The Tax Reform Bill reduces incentive for charitable deductions by raising the standard deduction.

Truth:
Large donations make up the majority of charitable giving. The tax bill does not fundamentally change the structure of the charitable deduction, and actually allows individuals to claim a deduction for gifts totaling up to 60 (up from 50 prior to tax reform) percent of their adjusted gross income meaning those who do give substantial amounts to charity will still have that same incentive. (see also Another Charitable Strategy under ***Tax Tips For You...Now!***)

Myth:
The IRS will call taxpayers and demand payment of past due taxes.

Truth:
Note that the IRS will ***never***:

- Call to demand immediate payment using a specific payment method such as a prepaid debit card, gift card or wire transfer. Generally, the IRS will first mail you a bill if you owe any taxes.
- Threaten to immediately bring in local police or other law-enforcement groups to have you arrested for not paying.
- Demand that you pay taxes without giving you the opportunity to question or appeal the amount they say you owe.
- Ask for credit or debit card numbers over the phone.

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that you complete a review of your federal withholding taxes. If you were surprised or disappointed in your recent federal tax refund or you experienced the pain of an unexpected tax balance due… there is still time to act.

Some taxpayers will want to adjust the amount of money that's being withheld by their employers by updating their W-4 forms. If they don't, some risk another year of smaller than expected refunds or even the heartbreak of a tax balance due to the IRS.

Many different outcomes are possible because unique circumstances in a taxpayer's life influence the appropriate withholding. The changes in the withholding tables that took place as a result of tax reform do not mean that you're all set.

The IRS encourages everyone to use their Withholding Calculator to perform a quick "paycheck checkup." This calculator is available at IRS.Gov. This checkup is even more important following the recent changes to the tax law for 2018 and beyond.

The Calculator helps you identify your tax withholding to make sure you have the right amount of tax withheld from your paycheck at work.

If you are an employee, the Withholding Calculator helps you determine whether you need to give your employer a new Form W-4, Employee's Withholding Allowance Certificate. You can use your results from the Calculator to help fill out the form and adjust your income tax withholding. If you receive pension income, you can use the results from the calculator to complete a Form W-4P and give it to your payer.

WARNING! The IRS calculator requires you to:

- Gather your most recent pay stubs

–and–

- Have your most recent income tax return handy.

Keep in mind that the Calculator's results will only be as accurate as the information you provide. If your circumstances change during the year, come back to this Calculator to make sure that your withholding is still correct.

Although the IRS calculator may only take a few moments to complete, it does contain 5 pages of data entry.

If you need help with reviewing your federal tax withholding, call me. This could be one of the most important planning exercises for you to complete as soon as possible.