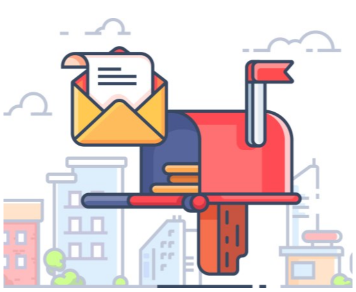
TAX TIME BASICS LETTER

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.

□ **Assets held outside the USA.** Bring statement(s). Such assets must be disclosed even if they do not generate income.

□ **Purchase and sale information,** including dates, relating to anything sold is needed. Include sales denominated in ANY type of currency (including virtual currencies like Bitcoin).

□ **Child care provider information** (name, address, SS#, 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.

□ **Forms 1099-Q** for distributions from education savings plans.

□ **Bring your records of estimated taxes paid.**

□ **Student loan interest forms 1098-E.**

□ **Adoption costs** if applicable. Also bring the legal adoption documents.

□ **Form 1098-C** for donations of automobiles or boats.

□ **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.

□ **Proof of health insurance is needed.** Bring Form 1095 if you received one.

□ **Health Savings Account** (HSA) **contributions and distributions.** Bring forms 5498-SA and 1099-SA.

□ **Out of pocket medical expenses** may be deductible (if large). Bring details.

YEAR-END TAX TIPS

Don't wait until the 11th hour to plan your year-end tax moves.

Check your withholding:

The Government Accountability Office predicts that more employees will owe the IRS this year due to reductions in federal withholding from employee paychecks. Folks without withholding (primarily business owners) may owe too, especially if they had a more profitable year.

There is no simple formula for estimating if you will owe. Your tax advisor will require your most recent paystubs plus estimates for all other income and capital gains.

Avoid penalties:

The IRS will charge a penalty if your tax for 2018 is less than 90% prepaid, unless your payments are at least equal to last year's tax (110% of last year's tax if your income exceeds $150,000).

Itemized deductions:

Some of the last-minute deduction tricks you might have used in the past may not work this year due to tax law changes. For example, state, local, & property taxes (combined) are now capped at $10,000. In addition to that, the standard deduction almost doubled. Bottom line, check first before you assume that increasing your itemized deductions will save tax dollars.

If you ARE itemizing, try to do as much as possible. For example, you should consider giving more to charity. That's because the new rules have made it more difficult to itemize… so in years when you know you are over the standard deduction it is wise to take advantage of that by giving more.

Similarly, paying large medical bills before the end of the year may be wise if you are close to itemizing. This is especially true if paying your medical bills pushes you over the standard deduction (and thus allows you to deduct more of your charitable contributions). The threshold for being able to deduct medical expenses in 2018 is 7.5% of adjusted gross income.

Are you over age $70^{1/2}$?

Make sure that you take Required Minimum Distributions (RMDs) from retirement accounts on time. Technically, you can wait one year AFTER you turn $70^{1/2}$, but if you do that you must take two years worth of RMDs in one year.

The good news for taxpayers older than $70^{1/2}$, however, is that you can get a deduction for charitable contributions even if you don't itemize. In order to get this special treatment you must give to the charity directly from an IRA. This is called a Qualified Charitable Distribution (QCD). QCDs also count toward your RMDs.

Increase retirement contributions:

Another way to decrease your taxable income is to bump-up your pre-tax retirement account (e.g. 401(k), 403(b), etc.). You only have until 12/31/18 to do this. Besides current tax savings, money grows tax deferred on these investments.

Self employed?

Shelter up to 20% of your income in a SEP IRA. You have until April 15th (longer if you file an extension) to make contributions to a SEP.

The self employed can also pay bills already received before the end of the year to decrease taxable income. If you need new equipment, save tax dollars now by purchasing before the end of the year. You can even pay by credit card and take the deduction in the current year.

Selling investments?

If your taxable income is likely to fall below $38,600 (single) or $77,200 (married) consider selling long term investments that have gained in value. You will not pay any federal tax on the gain if you keep your taxable income below those thresholds.

Conversely, it might be wise to check your portfolio for losses to reduce your income. You can offset up to $3,000 of other income with investment losses. If you wish to repurchase the stock again, wait at least 31 days to avoid wash sale rules.

If you are planning on deducting worthless stock, remember that it's not deductible until it's completely worthless.

Buying investments?

In buying mutual fund shares, avoid the year-end tax trap. Year-end dividends may include a years worth of capital gain in a large taxable payout. The value of your shares declines by the amount of payout, so you end up paying tax on profits that reduce your share value.

Roth conversions:

The deadline to convert funds from a traditional IRA to a Roth IRA is 12/31/18. Remember that you pay tax on the amount converted. Also remember that you can no longer un-do Roth Conversions at a later date (due to the new tax law).

Health insurance:

When you consider your health insurance options, remember that you no longer have to pay a penalty for not having insurance beginning 1/1/19.

If you choose a health plan that is compatible with Health Savings Accounts (HSA) you should start funding your HSA right away. That's because medical expenses do not count as a "qualified" for tax free distributions from HSAs if they occur before the HSA account was funded.

Employee fringe benefits:

Look into pre-tax spending options that your employer offers, such as; insurance, daycare, commuting, parking, medical, education, etc.

Year-end gifting:

You can gift up to $15,000 (for each recipient) without having to file a gift tax return. Remember, however, that even if you do give more than that you will not owe any federal tax when you file the gift tax return (unless you give millions of dollars).

Some deadlines don't expire on 12/31:

A few of the most popular tax saving moves are NOT due by 12/31/18.

- **Roth and Traditional IRAs** give you until 4/15/19 to make your 2018 contributions. **Health Savings Accounts (HSA)** also give you until 4/15.19 to make a 'top-up' contribution if you under-contributed during 2018.
- **SEP IRAs** (for the self employed) give you until 10/15/19 if you file an extension(4/15/19 otherwise).

The basic strategy for year-end tax planning can be summed up in the following two statements:

- *Channel your income into the year where it will be taxed at a lower rate.*
- *Channel your deductions to the year where your income will be taxed at a higher rate.*

If you think that you need year-end tax planning, get in touch with a professional who knows the rules to help answer your questions.