YEAR-ROUND TAX SAVING TIPS 2018

VOW TO BE MORE EFFICIENT.

Tax planning is a year-round game.

There's no time to start like the present.

You can start by setting up a filing system for taxes that works for you. It can be as simple as a series of envelopes or folders to hold tax information. Or, if you prefer, a computerized program can easily keep track of expenses.

What to keep track of varies from person to person, so a look at your last tax return will help you identify the tax matters that pertain to you. Make a folder or set up a computerized account for tax deductions using the tax return as a guide. You'll be amazed at how easy tax preparation will be next year with your own personalized recordkeeping system.

What's your tax bracket?

Your tax bracket is the percentage of tax that you pay on your last dollar of income. Once you know this percentage, you can better determine the after-tax cost of deductible items. You can find your tax bracket by finding the **taxable income** on your Form 1040 and looking up the rate at irs.gov ("federal tax rate schedules").

Refund or tax due?

If you received a large refund, you might consider reducing your withholding at work to free-up more take home pay **now.**

If you owed tax, you might consider pre-paying a little more or increasing your withholding at work so an underpayment penalty might be avoided. Or, become income and deduction savvy by reading on.

The basic strategy for tax planning can be summed up in the following two statements.

Find ways to reduce the impact of your income.

Maximize your deductions and credits.

Defer more income into retirement.
Contributing to a 401(k) and/or traditional IRA is a great way to lower your taxable income. 401(K) contributions are deducted from your income before taxes. For 2018, you can put up to $18,000 into your 401(k), $5,500 into your IRA (subject to income limitations), and more if you are over 50. You save on taxes now, shelter the money from tax as it grows, and contribute to your retirement wealth.

Start a Roth IRA.
Your present income tax will not be reduced by a Roth contribution, but if you follow the rules, your Roth contribution of up to $5,500 ($6,500 if over 50) and its earnings will be removed from taxation forever.

Use your flexible spending account.
A medical spending account is funded with pretax dollars, so you reduce the impact of your income. You save income tax and Social Security/Medicare dollars with each contribution. If you haven't signed up for this tax saving tool, you should consider doing so. A review of last year's medical expenditures can help you determine the amount to set aside. You can set up to $2,650 a year in a pretax account for 2018.

If you have children in child care, you can set aside up to $5,000 in a pretax child care account. This money also escapes both income and Social Security/Medicare taxes, and in most cases, provides better tax savings than the Child Care Credit.

If your income is over $200,000 (single) or $250,000 (married/joint), you may be subject to the 0.9% surtax on earned income. The above mentioned pretax accounts can lessen the blow of these taxes.

Start a college plan.
You have two options:

● 529 plans are college saving programs set up by states. They will not save current tax dollars, but the money contributed saves future dollars because they grow tax-free and can be cashed in with no tax liability when used for qualifying post secondary school expenses. These plans were made permanent by Congress, so their future tax-free status is assured.

•Coverdell accounts are self-directed education accounts. Contributions to these are more limited, but they also grow tax-free and proceeds can be used for education at any level from kindergarten to college.

•Sock money into your Roth IRA now for future college costs. Your original contributions can be withdrawn tax free for anything (only the earnings withdrawn are subject to tax + penalty).

Rebalance your portfolio.

● Do you have any losers? You can sell stocks at a loss and offset all of your present gains plus $3,000 of other income.

● If you have stock gains instead of losses, take advantage of the lower taxes on long term capital gains by keeping your stocks longer than a year. If your income (including capital gains) is below $50,600 (single) or $101,200 (married), you can sell assets held long term at a gain and pay no federal tax. State taxes may apply, however. If you itemize those income levels are even higher.

● Dividends are also taxed at lower rates than interest, so consider exchanging some interest bearing securities for those that pay dividends.

● Investing in tax efficient or index mutual funds can keep your tax bill at a minimum. If you desire more control over your portfolio, buy and hold individual stocks which pay low or no dividends that you expect to increase in value. No gain will be realized until you decide to sell.

● Invest in municipal bonds for tax-free interest. If your tax bracket is high enough, the tax savings will outweigh the lower rate of interest you receive. If your income is over $200,000 (single) or $250,000 (married/joint), you can escape some of the 3.8%surtax on investment income by buying municipals.

Plan for your required minimum distribution. (RMD)

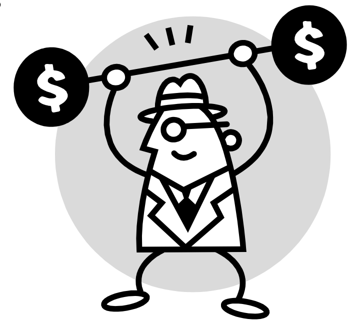
● You must begin taking distributions from IRAs and other retirement plans by April 1 of the year after you turn 70½. If you wait until that date, you will have to withdraw two years of distributions in one year.

● Once you turn 70½ you also qualify for a special tax benefit called a Qualified Charitable Distribution (QCD). That's when you give directly to a charity from an IRA. When you do this correctly you can take the tax deduction even if you don't itemize. Ask your tax advisor for the details about this special tax saving tip.

● If your income is variable, consider a conversion of money from a traditional IRA to a Roth IRA in a year when your income is low. By doing this, you are creating taxable income, but you reduce the amount that must be distributed from the traditional IRA when you turn 70½, and you will remove the money from future taxation.

Use your home as a tax shelter.

You can reap tax-free profits of up to $500,000 (married/joint) or $250,000 (single) upon the sale of your home if you have lived in it for at least two years. There is no limit to the number of times you can do this. This means that you can buy "fixer-uppers," rehab them, and sell them after two years of occupancy, and pay no tax on the profit.



Did you know that you can rent out your home for up to 14 days each year without having to declare the income?

Is itemizing worth it? Did you itemize your deductions last year? Check out Schedule A. For 2018, the standard deduction is as follows: married filing joint get $24,000, head of household gets $18,000, and single taxpayers get $12,000. Many more taxpayers are finding it difficult to itemize. If you fall into this situation, you may benefit by "bunching." The "bunching" technique involves itemizing every other year by doubling up on itemized deductions and using the standard deduction in the next year.

Get the most out of non-cash contributions.
Give your old clothing and household items to charity and get a deduction for the fair market value. To maximize your deduction, make a list, take photos, and make sure you get a receipt. Items must be at least in good condition. Items of small value such as socks and underwear will not be counted.

Give appreciated stocks to charity.
If you give stock (held long term) that has appreciated in value to a charity, you can deduct its fair market value without having to pay tax on the gain.

Conversely, if you wish to donate stock that has decreased in value, sell it, take the loss, and give money to the charity.

Document your volunteer activities.
If you volunteer at church, school, or other non-profit organizations, keep track of your out-of-pocket expenses and log your miles driven. The tax savings can be substantial. A receipt or cancelled check for a cash expenditure is necessary. Noncash volunteer expenses need to be receipted also, however if a receipt is impractical to obtain, and the expense is under $250, detailed written records should be maintained.

Plan your vehicle donation.
You may be a loser if you pick the wrong charity. If the charity sells your vehicle, your deduction is limited to the amount the charity actually receives from the buyer. You will be issued a Form 1098-C by the charity acknowledging the donation. If the charity uses it, donates it to the poor, or improves it, you may still deduct the *fair market value.* So, select a charity that will either use or improve the vehicle to maximize your deduction.

Document your cash donations. A receipt from the organization, a cancelled check, or a bank record is required to substantiate any cash donation. A log is no longer sufficient evidence, so save receipts.

Cash in on your kids.
Your kids are worth a bundle at tax time.

● If your 2018 income is under the phase-out range, you will get an extra $2,000 **credit** for each child under age 17. The phase-out range begins at $400,000 for married taxpayers filing joint ($200,000 for all other filers). Ending phase-out amounts vary. If you are in/above the phase-out range, you might consider increasing your tax deferred retirement contribution to lower your income. If your credit is more than your tax, some or all of the excess may still be available for refund.

The TC&JA also created a new 'partial credit' of $500 for dependents age 17+ (the credit phases out at the same levels as the full version of the Child Tax Credit)

● Your children in college might qualify you for the American Opportunity Tax Credit. The credit is 100% of the first $2,000 spent for tuition and required materials, and 25% of the second $2,000. the maximum credit is $2,500 per student for all four years of college. To qualify, your income needs to be under $90,000 ($180,000 MFJ). Also, if your tax is reduced to 0, you can still get 40% of it back.

● Try income shifting. Put income bearing securities in your kid's name and let them pay tax. The first $1,050 of income is not taxed, and the next $1,050 is taxed at only 10% for 2018. Watch out though, because everything over $2,100 will be taxed at the much higher rate of a "trust". Once your kids are old enough to claim themselves the tax rate on their investments goes back to the lower "individual" rates.

● Missing out on all of these tax savings due to lack of kids? Adopt one. You could get a tax **credit** of up to $13,840.

If you need medical insurance, start an HSA.
You must be under 65, covered by a HSA compatible high deductible health plan, and have no other insurance in order to set up a HSA. If this is you, you can put up to $3,450 (single), $6,900 (family) into the HSA account and deduct the payment. You get a medical deduction without having to itemize. Withdrawals from the HSA are not taxed if used for medical expense.

Remember to properly document your charitable donations. A receipt from the charity is required for donations of over $250 and a receipt, cancelled check or other evidence is required for all donations of any amount.

MAXIMIZE YOUR BUSINESS DEDUCTIONS

If you own a business, being organized is very important. Channel your income and deductions into a single bank account, monitor it on a regular basis, and use a computer program or filing system to sort deductions into categories.

Plan your vehicle deduction.

If you own a large vehicle, you will most likely want to save all of your receipts for expenses to deduct actual costs. If your vehicle is smaller and more economical to run, you will want to use the standard mileage rate of 54.5¢. In any event, **log your business miles on a daily basis.** The deduction for the business use of a vehicle can be substantial, and the proof is in the documentation.

Hire your kids.

For 2018 your child can earn up to $12,000 working in your business before any income tax needs to be paid on the earned income. This can be increased to $17,500 if a $5,500 traditional IRA is purchased. While your child earns tax-free income, you save tax dollars by deducting the wages paid. In the 22% tax bracket, for example, you save $3,850 in Federal tax plus $2,473 self-employment tax by paying a wage of $17,500 to your minor child. Be aware that the work the child does must be appropriate for the child's age and must actually be performed to make this a legitimate expense. For example, you could use the technology skills of your computer-savvy children to help in your business. Keep good records, have a signed employment agreement outlining the work performed, and track the payments into your child's bank account.

Hire your spouse.

Employing your spouse will also enable you to deduct his or her travel expenses if you travel together for business.

The law enables you to reimburse up to $260 of parking at or near work or mass transit for your employees on a pre-tax basis.

Use a home office.

If your home is the only location in which your business is conducted, set up an area exclusively used for business. You'll be able to deduct a percentage of your household expenses.

Set up a self-employed retirement plan.

Save money on your taxes and provide for your retirement at the same time by contributing to a pension plan. You can put up to 20% of your net income from self-employment each year in a SEP. The decision to contribute can be made as late as the due date of your tax return for the year. If you are a one person business, or are employing only your spouse, the SEP is great. If you have other employees, you will have to cover them at the same percentage as yourself.

You should consider the **Simple IRA** if you have employees. This plan needs to be set up by October to start it for any year. Employees can elect to put up to $12,500 ($15,500 if age 50 or over) each into the plan on a pre-tax basis. You must contribute 2% of all employees wages or 3% of contributing employees wages.

There is a new business deduction.

The Tax Cuts & Jobs Act eliminated the Domestic Production deduction for businesses with employees making products in the USA. However, there is a new business deduction call the Qualified Business Income (QBI) deduction.

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 lets 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) 20% of Qualified Business Income (QBI), or 2) 20% of taxable income minus capital gains.

What is QBI? QBI is closely related to profits. If your business is profitable you likely will have QBI. There are some exceptions. For example, business owners with an extremely high mileage deduction might be profitable but not have QBI. Similarly, profitable landlords might not have QBI because of high depreciation deductions.

Example: Paul is a single consultant with $75,000 in QBI and no capital gains. His taxable income (after deductions) is $57,701. His deduction is 20% of $57,701, or $11,540. This saves him $2,539 in tax.

This is an over-simplification of the QBI deduction. There are separate rules for folks with taxable income greater than $157,500 (single) and $315,000 (MFJ). If you are a service business your deduction begins to phase-out above these income levels. If you are NOT a service business you still might be able to get the deduction but it depends on other factors such as wages paid and the value of certain business assets. It gets complicated, so work with a professional to understand how to take full advantage of this new and favorable business deduction.

Keep a daily log of business miles to maximize your business vehicle deduction. The deduction for business use of a vehicle can be substantial, and the proof is in the documentation.

A word to the wise: *The ideas outlined in this letter have been presented in general terms. Limitations and phase-outs may apply. To receive full benefit from these suggestions, and to remain in compliance with federal and state regulations, it might be a good idea to make a tax planning appointment.*