Greetings….as another year winds down, once again tax planning for the year presents a number of challenges for both the year we are finishing and year ahead. This is primarily due to the tax law changes brought about through the passage of the Tax Cuts and Jobs Act of 2018. Major changes include the nearly doubling of the standard deduction, elimination of personal exemptions, and so much more. This year marks one of the first times in decades with massive tax law changes, creating tremendous uncertainty and potential tax surprises at year-end. Please plan properly and consult with us on your particular situation.

- **Tax Rates** – Planning for your marginal tax rate continues to be the most solid tax planning strategy. For singles, the cut-off from the new 12% bracket to the 22% bracket is $38,700 of taxable income (income after deductions). For married filers, the cut-off is $77,400. For income over $500,000 for singles and $600,000 for marrieds, the highest rate bracket is now 37% (formerly 39.6%). Taxpayers whose income exceeds $200K single and $250K married are still liable for an additional 0.9% Medicare tax on wages as well as a 3.8% Net Investment Tax on investment earnings and gains, as these taxes remained in place under the new law.
- **Itemized Deductions** – If you have historically itemized your deductions, you may find that the strategy will change in 2018. This is largely due to the major standard deduction increase from $6,350 to $12,000 for single filers and $12,700 to $24,000 for married-joint filers, all brought about by the new law.

  Medical Expenses – Medical expenses (including: long-term care costs) remain deductible subject to the 7.5% of AGI limitation.

  Taxes – State and local income taxes, sales taxes and real estate taxes are now capped at an annual maximum of a $10,000 deduction regardless of the amount incurred.

  Mortgage Interest – Mortgage interest on a mortgage secured by the principal and/or second residence remain deductible on indebtedness of up to $750,000. ($1,000,000 for homes that were mortgaged prior to 12/16/17 or under binding contract before 12/16/17 and closed by April 1, 2018).

  Investment Interest – Investment interest expense (margin interest) remains deductible as an itemized deduction.

  Home Equity Interest – Home equity interest is no longer deductible unless it can be proven that the debt incurred was used to buy, build or substantially improve your home. If you used the home equity line to pay off credit card bills or to buy a vehicle or such, the interest is no longer deductible.

  Charitable Donations – Charitable donations remain deductible. In order to benefit from the charitable donation deduction, you may want to consider

strategies such as moving two years of charitable giving in to one year, donating appreciated stocks, maximizing non-cash contributions, utilization of qualified RMD donations from your IRA, etc. Keep in mind that donations of real property can provide a deduction of the fair market value of the property based upon appraisal.

- **Miscellaneous Itemized Deductions** – as a part of the tax law changes, it is important to note that certain items that have historically been deductible are no longer deductible: employee business expenses, employee home-office expenses, per-diem expense for employee truck-drivers, tax prep fees, IRA custodial fees, investment-related expenses, safe-deposit box rentals, etc. Note that in a business scenario (Schedule C, E or F) some of these items may still be deductible (e.g., tax preparation costs on a rental property, business, farm etc.)
- **Moving Expenses** – moving expenses are no longer deductible with some exceptions for military personnel.
- **IRS Identity Theft** – Identity theft, fraud and scams continue to be at an all-time high. Should you receive a notice from the IRS or a call or email from someone representing they are from the IRS, please DO NOT provide any information to them until you have confirmed they are legitimate (call us). Keep in mind that the IRS does NOT initiate contact via email or telephone.
- **Expanded Child Tax Credit** – The child tax credit has been doubled to $2,000 per child and the income limits are drastically higher for the credit phase out at $200K for singles and $400K for marrieds. This applies to children under age 17.
- **Alimony** – for divorces that finalize after December 31, 2018, alimony is no longer a tax deduction to the payor and is no longer taxable to the payee.
- **Estate Tax and Gift Tax** – The federal gift and estate tax exemption is currently set at $11.18 million per person and is projected to increase to $11.4 million in 2019. The annual gift tax exclusion is $15,000 per year per donee. Gifts in excess of this amount require an annual gift tax filing with the IRS due April 15.
- **Required Minimum Distributions on IRAs** – Don't forget that if you are age 70.5 or older, you must take a required minimum withdrawal annually on your IRA or you could be subject to a 50% IRS penalty for not taking the distribution.
- **Qualified Charitable Gifting from IRA** - IRA owners over age 70.5 may also make tax-free qualified distributions to a charity directly from their IRA – this is especially a key planning point under the new tax law as itemized deductions will be harder to achieve and can be a great planning opportunity.
- **Capital Gains and Qualified Dividends** – There remains a huge opportunity for the federal 0% capital gain – this is open to you if you are in the 10% or 12% tax bracket. The 15% rate on both long-term capital gains and qualified dividends remains in effect, if you are in the 22% bracket or above. There is still a higher 20% capital gain rate for taxpayers in the highest tax brackets.
- **Health Savings Accounts (H.S.A.)** – Consider setting up a health savings account if you have a high deductible health insurance policy ($1,350 or more for singles and $2,700 for families). This can provide beneficial deductions for your out of pocket medical expenses and can be especially beneficial in light of the new standard deduction. The 2018 contribution limits are $3,450 for singles and

$6,900 for a family. Contributions must be made by April 15, 2019. Catch-up contributions of up to $1,000 per year are allowed for folks age 55 or older.

- **Conversions to Roth IRAs** – Once again for 2018, traditional IRAs can be converted to Roth IRAs without earnings restrictions. This can be a very solid strategy if you have excess room in the 12% tax bracket to absorb the conversion.

SELECTED BUSINESS ITEMS FOR 2018

- **Asset Purchases - Bonus Depreciation –** Businesses can deduct 100% of the cost of assets with useful lives of 20 years or less that are put in to service during 2018. This includes: machinery, equipment, land improvements and some farm structures. Leasehold improvements to commercial building interiors can be eligible as well. Please note that for state tax - Maryland remains decoupled from this law and depreciates assets differently.
- **Section 179 Expensing Deduction** - For 2018, you may be able to expense up to $1,000,000 of qualifying property placed in service – new or used. The amount phases out as you exceed $2,500,000 in total assets placed in service during the year. Buyers of certain SUVs weighing between 6,000-14,000 lbs can deduct up to $25,000 through this election. **Important note: to qualify for a 2018 Section 179 election, the asset must be placed in service (meaning you must physically have it and utilize it for business) by December 31.**
- **C Corp Tax Rates –** the top C Corporation tax rate is now a flat 21%.
- **Qualified Business Income (QBI) Deduction –** Under the new law, businesses may be entitled to a deduction of up to 20% of their qualified business income from a qualified trade or business. The QBI is very complex and tax planning strategies can directly affect the amount of the deduction, so planning and analysis is of the utmost importance.
- **Consider Hiring Family –** If you decide to hire family members, pay a reasonable salary for the work actually performed. You may be able to provide tax-deductible fringe benefits as well as save on payroll taxes. This strategy can be beneficial to shift income to lower tax brackets.
- **Retirement Plans –** Consider setting up a retirement plan for your business – Simple IRA, SEPs, 401(k)s – there are many options and these plans can be key in saving significant tax liability. In certain cases, up to $55,000 of income can be sheltered from taxation through these plans.
- **Credit Cards** - Keep in mind that business expenditures incurred on a major credit card (not a store card) are deductible in the year in which they are incurred.

PLANNING IDEAS: You may be able to reduce your taxes by controlling the payment of deductible expenses and the timing of the collection of income. Several strategies to consider may include:

- Pay all state and local income taxes (4th Qtr Estimated Pymts) and full-year real estate taxes prior to the end of the year (by 12/31/18). Postmark validation required.

- **Maximize your contributions to employer-sponsored retirement plans and IRAs – this one is so important and can be so beneficial from a deduction standpoint.**
- **Education** - It may be beneficial to pay 2019 tuition in 2018 to take advantage of the American Opportunity Tax Credit worth up to $2,500 per student to cover the cost of tuition, fees and course materials paid during the taxable year. **Form 1098-T is required from the college for the tax filing – typically the student has access to this through the college website.**
- **Charitable Donations**. Make year-end donations to qualified charitable organizations. Use your credit card if you wish, or mail your check as late as December 31, 2018. Consider cleaning out and donating clothing and household goods to charity by year-end and keep a list of items and values.
- **Medical Expenses** – Try to bunch medical expenses. For example, trying to pay medical bills in one year bunched together instead of two years can give you a better chance of exceeding the thresholds.
- **Section 529** – College Savings Plan Contributions must be made by 12/31.
- **Please contact us to see if you have a capital-loss carry-forward from 2017 and make your broker aware of it before year-end for utilization of losses against capital gain income. This can be a key planning strategy.**
- **Keep good mileage logs**. The 2018 standard mileage rate for business is 54.5 cents per mile. Please provide us with copies of your mileage logs for our records as the IRS is requesting these on a frequent basis.
- Complete a new Form W-4 for your employer to adjust tax withholding.

FINANCIAL HOUSEKEEPING TIP – While thinking about your tax and financial planning, think about your loved ones and compile a list of all investment, bank accounts, credit cards, safe deposit boxes, etc., and make a record of where each account is held and who to contact when you are gone. Taking these few steps now could pay dividends for those that you leave behind and make things so much easier during a stressful time.

IMPORTANT FIGURES FOR 2018/2019

SOCIAL SECURITY LIMIT FOR WAGE EARNERS FOR 2019: $132,900

RETIREMENT PLAN CONTRIBUTION LIMITS*:

	YEAR 2018	***YEAR 2019***
IRA(REG/ROTH)	***$5,500***	***$6,000***
SIMPLE IRA	***$12,500***	***$13,000***
401K/403B/SEP	***$18,500***	***$19,000***

**NOTE: IF YOU ARE OVER AGE 50, YOU ARE ELIGIBLE TO CONTRIBUTE ADDITIONAL CATCH-UP AMOUNTS DEPENDENT ON THE TYPE OF PLAN– PLEASE CALL FOR DETAILS.*

This newsletter is issued annually to provide you with information and planning ideas to minimize your tax liability. Do not apply this general information to your specific situation without additional details. Be aware that the tax laws contact varying effective dates and numerous limitations and exceptions that cannot easily be summarized. For details and guidance on your specific situation, please contact us.

We are often asked about record-keeping requirements for tax returns and such. Generally, the statute of limitations for the IRS or state agencies to assess taxes on a taxpayer expires 3 years from the due date of the return or the date on which it was filed, whichever is later. The statute of limitations gets extended for an even longer period of time when there is a substantial omission (more than 25%) of gross income. In these circumstances, the time limit for the IRS to assess additional taxes is six years. Keep in mind that documentation for investment basis, house sale, etc., for tax purposes can require extensive history of receipts and such, so there is no concrete rule of thumb for records retention.

Tax organizers will be mailed out after January 1. Our staff of Erin Dibacco, Mindy Gangler, Cinda Savage, Kasondra Margroff, Lori Frantz, Meghan Foley, Patti Getchell and Jacob Cannon, along with Brian and Shane, are looking forward to seeing you again this year. If you have any questions, please contact our office.

Yours very truly,

All of us at Boal and Associates CPAs

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