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TAX FILING AND PLANNING IN 2018

Well, we finally got tax reform. What did individuals get out of it? Lower tax rates and a simplified tax system, to the extent that higher standard deductibles will take more families and single taxpayers out of the ranks of itemizers. What didn't happen? There are no fewer tax brackets (seven) than before. Repeal of the estate tax and the alternative minimum tax also did not win out, though higher thresholds for both will mean fewer taxpayers will need to worry about them. We expected that these changes likely would come at a cost: the loss of some tax deductions and credits and the alteration of others and that came true. Many provisions of the tax code were unaffected and will continue as before or with previously announced cost-of-living adjustments. While the provisions of the reform act won't be impacting tax filing until 2019, new withholding schedules are reflecting the new tax structure. Fill out a new W-4 to make sure that you are accurately mirroring your current tax picture.

TIPS FOR FILING 2017 RETURNS

Get organized early!

The threshold for using IRS Free File software has risen from last year. Taxpayers with adjusted gross incomes of \$66,000 or less can use the software to fill in and submit an e-filed return. For others, the IRS offers online fillable forms that do the math.

Note: the due date for 2017 returns is Tuesday, April 18 due to wrinkles in the calendar, so you have two extra days to file.

Realize, of course, that if you don't have all the necessary information available, no system can help, no matter how user friendly. Organization is paramount. If you hire a tax professional

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TAX PLANNING FOR 2018

The estate tax exclusion gets a big boost.

The estate tax exclusion, due to annual inflation adjustments, would have been \$5.6 million in 2018. However, the reform bill doubled it to \$11.2 million and it will continue to rise with inflation in coming years.

Take advantage of retirement savings.

Tax reform did not touch any of the traditional retirement vehicles, so maxing out your retirement options should remain a priority as before, unencumbered by any new limitations.

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to do your return preparation, you will get their best work only if you give them all the information they need. Rushing leads to mistakes, such as math errors and incorrect entry of Social Security numbers, which can delay refunds.

Here are the basic documents and forms you will need.

Documents:

The essentials are W-2 forms from your employer(s) and 1099 forms from organizations from which you have reportable income. These must generally be mailed by January 31, except for brokerage and mutual fund 1099-B forms, which must be mailed by February 16. You'll also need the 1098 form from your mortgage lender reporting home mortgage interest and property taxes paid (if you do not pay them directly).

Sales of stocks, bonds and mutual funds will probably require you to dig back into your own records to determine the amount of gains or losses, although any purchases in 2017 will reported on your 1099-B. The purchase dates and cost basis for the investments sold will be needed to fill out Form 8949 (Sales and Other Dispositions of Capital Assets) and Schedule D.

Alert:

FSA SPENDING ACCOUNTS HAVE MORE TIME TO USE

Health flexible spending account maximums, at \$2,600 per taxpayer for 2017, will rise to \$2,650 for 2018. If you have not used all of your 2017 FSA money, don't despair. The IRS allows some latitude as to when the money is spent.

Up to \$500 of unused amounts remaining at the end of a plan year in a health FSA can be paid or reimbursed for medical expenses incurred in the next year if the company plan's rules permit the carryforward.

Form 8949 should be completed before going to Schedule D (Capital Gains and Losses). Then use Schedule D to figure the overall gain or loss from transactions reported on Form 8949.

If you added a dependent in 2017, you need a taxpayer identification number (for a new baby, that will be a Social Security number) for family members to claim them as a dependent. If you claim tax benefits for a resident or nonresident alien who is not eligible for an SSN, you will need an Individual Taxpayer

Identification Number. File an IRS Form W-7 to get one.

For cash charitable contributions, you need either a bank record (a cancelled check or a bank or credit card statement) or a written communication from the charity showing the amount and date of the contribution. Cash contributions of \$250 or more need a contemporaneous acknowledgment from the charity or you must have a payroll deduction record.

Noncash contributions of less than \$250, more than \$250 but less than \$500, more than \$500 but less than \$5,000, and more

than \$5000 each have specific recordkeeping requirements that must be met. No deduction is allowed for contributions of used clothing or household items unless they are in at least "good" condition. An exception is made for property worth more than \$500 for which you have an appraisal (a copy of which must be attached to your form).

For donations of vehicles, if the claimed value is more than \$500, you must have a written acknowledgment from the charity and you must attach it to your return. The acknowledgment must include your taxpayer identification number, vehicle identification number and date of the contribution.

If the vehicle was sold, the charity also must include the price at which it was sold and certify that the sale was an arm's-length transaction. If the charity made significant use of or fixed up the vehicle, then a deduction can be taken for the fair market value, subject to additional certifications.

Forms:

The IRS no longer automatically sends out tax forms due to the cost and the fact that so many people file electronically. If you want paper forms, libraries, post offices and IRS walk-in centers still have them. Of course, you can most conveniently get them at the IRS website, www.irs.gov. You can also call 1-800-TAX-FORM (800-829-3676) to have forms mailed to you.

Alert:

AMT EXEMPTION LIFTED

The alternative minimum tax survived a serious effort by tax reformers to scuttle it. Ultimately, it was decided that it would cost the Treasury too much to eliminate it entirely, but exemptions did get big boosts.

For 2018, the exemption is \$70,300 (up from \$54,300 in 2017) and begins to phase out at \$500,000. For married couples filing jointly, the 2018 exemption is \$109,400 (up from \$84,500) and the phaseout starts at \$1 million.

Goodwill Industries (www.goodwill.org) and the Salvation Army (www.salvationarmyusa.org) both have guides that contain ranges of values for common items.

Home mortgage purchase deductible items to check.

Loan origination and discount fees (points) contained in item A. of the Closing Disclosure form) are generally deductible for the purchaser/borrower, whether or not they are paid from the borrower's funds or the seller's funds at settlement, so long as they meet specific tests.

Got all the documents and forms you need?

Here are some tips:

Valuing deductions for contributions of items to charity.

Estimating the value of household items such as old clothes, toys, appliances, etc. that you donated to charity is troublesome for most taxpayers. You can deduct the "fair market value" of these items, but how do you know what that is?

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If these items are paid on a refinance, they usually must be amortized over the period of the loan (for example, 1/360 for each month of a 30-year loan). However, if you sold or refied again in 2017, you can deduct whatever amount remained from your earlier refi if you refinanced with a different lender. Unfortunately, if you refinanced with the same lender, the points must continue to be deducted over the life of the loan.

Be sure to add any adjustments for state or local taxes attributable to your period of ownership that may have been paid by the seller in advance. See items K, 8 and 9 on page 3 of your Closing Disclosure form. You can add them to whatever taxes that your lender reports having paid.

Make a retirement contribution.

One thing that you can still do to reduce 2017's tax liability is make a deductible contribution to a retirement account. Contributions to traditional IRAs and certain accounts for the self-employed can be made until the due date for your return.

Tip:

A POINT ON POINTS

Loan discount points that you paid on a refinance are generally not deductible in the year you pay them.

However, if part or all of the funds are used to improve your main home, the portion attributable to that use is deductible, provided that all the other requirements for deducting points are met.

Points on a second home must be deducted rateably over the life of the loan.

The annual contribution limit for regular and spousal IRAs remains unchanged at \$5,500 for 2017 and 2018 (\$6,500 if you've turned 50) or your taxable compensation for the year, whichever is less.

You qualify for the full amount of the IRA if you are not covered by a retirement plan at work.

If you are covered, you can take a full deduction if your "modified" adjusted gross income is less than a threshold amount.

A partial deduction is available in 2017 for singles with MAGIs from \$62,000 to \$72,000 and for joint filers with MAGIs between \$99,000 and \$119,000. For 2018, the phaseout range for singles rises by \$1,000 and by \$2,000 for marrieds.

Don't forget loss carryovers.

If you have any capital losses that may have been carried over from prior years (those that exceeded the \$3,000 limit on deductible losses), they can be used to offset last year's gains. Check your Schedule D, Capital Gains and Losses, from 2016 for the carryover amount.

Affordable Care Act rules still require attention.

While it is slated for repeal in tax year 2019, taxpayers will still need to address their health insurance coverage under Affordable Care Act rules. Most taxpayers will just check a box if they have qualifying health care coverage. Some taxpayers will need to file for an exemption. Others will have

to make a "shared responsibility payment" if they chose not to get coverage. Some who purchased insurance will be eligible for a tax credit. The IRS says it will not consider a return complete unless the taxpayer reports their coverage status.

A surtax on the net investment income of higher-earning taxpayers, like several tax provisions enacted in the Affordable Care Act, were unsuccessfully targeted for repeal and so remains in place. The surtax is 3.8% on the investment income of joint filers whose adjusted gross income exceeds \$250,000 and of single individuals whose AGI exceeds \$200,000 and is not adjusted for inflation.

Use the simplified rule for deducting home office expenses.

Taxpayers have a simplified option for taking a deduction for home office expenses. The optional deduction is \$5 per square foot for up to 300 square feet of home office space, to a maximum of \$1,500. Taxpayers still have the alternative of the more complicated Form 8829 if they think the extra effort will provide a larger writeoff.

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Maximum deferrals for 401(k) and 403(b) retirement plans climb \$500 to \$18,500 (\$24,500 for those over 50) for 2018, for regular and catchup contributions. Most financial planners will tell you it is crazy not to take full advantage if your plan has a substantial matching contribution percentage.

The 2018 contribution limit for a nondeductible Roth IRA remains at \$5,500 (\$6,500 if over 50), the same as for a regular IRA. The income phaseout ranges for contributions to a Roth IRA rise \$2,000 for 2018, to \$120,000 to \$135,000 of modified AGI for single taxpayers and by \$3,000, to \$189,000 to \$199,000, for joint-filing couples.

Make sure your donee organization is eligible.

Only donations to eligible organizations are tax-deductible. "Exempt Organization Select Check," is a searchable online database that is available on **IRS.gov**. It lists most organizations that are eligible to receive deductible contributions. In addition, the IRS advises, churches, and certain others, are eligible to receive deductible donations, even if they are not in the database.

Reform regiggers deductions, credits; adjust accordingly.

For 2018, taxpayers will have a \$24,000 (married) or \$12,000 (single) standard deduction available. Personal exemptions are eliminated. The child tax credit rises to \$2,000 per child. Taxpayers in higher tax brackets no longer lose a portion of their itemized deductions. Think about filling out a new W-4 form to make sure your withholding reflects your expected tax liability under the new law.

Business mileage rates inch up for 2018.

Since gasoline prices saw a small rise last year, the IRS mileage rate for business use of a vehicle in 2018 will see a one cent increase to 54.5 cents per mile. For medically related mileage or moving costs, the rate also climbs a cent, to 18 cents per mile, but remains at 14 cents for miles driven for charity-related purposes, which is set by statute.

REAL ESTATE TAX PROVISIONS AFFECTED BY REFORM

Tax reform wrought several significant changes in the rules affecting residential real estate. These were more impactful that we might have liked, but, in the end, we hope will be less damaging than some had feared.

What are the major real estate related tax provisions?

First, and probably the most impactful, especially if you are in a high-tax state or a locality that has hefty real estate taxes, the deduction for state and local taxes, including property taxes, will be limited to \$10,000.

An offsetting factor for some is a hike in the standard deduction, to \$24,000 for married couples. Fewer taxpayers, in general, will now be itemizing deductions due to the increase.

Second, for about the last 30 years, interest on acquisition debt of up to \$1 million for a principal residence (and a second home) has been deductible for itemizers. Interest on up to \$100,000 in home equity debt was also deductible.

Current homeowners will still have that \$1 million limit, but new purchasers, will have to live with a \$750,000 limit.

A current homeowner who refinances above the new limit will still be subject to the old limit so long as their mortgage balance does not increase.

In general, interest on home equity debt (even for those with preexisting indebtedness) will no longer be deductible. However, home equity debt used for the purpose of “substantially improving” a home continues to be considered (potentially deductible) acquisition debt.

Mortgage insurance had been deductible for purchasers until 2017. Unfortunately, that deduction was not renewed and is now dead.

Finally, though some had been proposed, ultimately there were no changes in the amount (\$500,000 for a couple) or residency period requirement (three out of the last five years) for excluding gains on the sale of a personal residence.

For more information about current law, refer to Publication 530, Tax Information for Homeowners, and Publication 527, Residential Rental Property, especially once the IRS has had time to address some questions raised by the new law.

Income Tax Rate Schedules for 2018*

Married filing joint returns and surviving spouses:

If taxable income is:	The tax is:
Not over \$19,050	10% of taxable income
Over \$19,050	\$1,905 + 12% of the excess over \$19,050 (but not over \$77,400)
Over \$77,400	\$8,907 + 22% of the excess over \$77,400 (but not over \$165,000)
Over \$165,000	\$28,179 + 24% of the excess over \$165,000 (but not over \$315,000)
Over \$315,000	\$64,179 + 32% of the excess over \$315,000 (but not over \$400,000)
Over \$400,000	\$91,379 + 35% of the excess over \$400,000 (but not over \$600,000)
Over \$600,000	\$161,379 + 37% of the excess over \$600,000

Unmarried individuals:

If taxable income is:	The tax is:
Not over \$9,525	10% of taxable income
Over \$9,525	\$952.50 + 12% of the excess over \$9,525 (but not over \$38,700)
Over \$38,700	\$4,453.50 + 22% of the excess over \$38,700 (but not over \$82,500)
Over \$82,500	\$14,089.50 + 24% of the excess over \$82,500 (but not over \$157,500)
Over \$157,500	\$32,089.50 + 32% of the excess over \$157,500 (but not over \$200,000)
Over \$200,000	\$45,689.50 + 35% of the excess over \$200,000 (but not over \$500,000)
Over \$500,000	\$150,689.50 + 37% of the excess over \$500,000

Heads of Household:

If taxable income is:	The tax is:
Not over \$13,600	10% of taxable income
Over \$13,600	\$1,360 + 15% of the excess over \$13,600 (but not over \$51,800)
Over \$51,800	\$5,944 + 22% of the excess over \$51,800 (but not over \$82,500)
Over \$82,500	\$12,698 + 24% of the excess over \$82,500 (but not over \$157,500)
Over \$157,500	\$30,698 + 32% of the excess over \$157,500 (but not over \$200,000)
Over \$200,000	\$44,298 + 35% of the excess over \$200,000 (but not over \$500,000)
Over \$500,000	\$149,298 + 37% of the excess over \$500,000

For married persons who file separate returns, the thresholds are half of that for joint filers. To determine the tax owed, halve the bracket amount and base tax figure and apply the applicable percentage to half of any excess.

*These tables are for 2018 taxes as put in place by the new tax reform act and are provided to assist you in tax planning (such as figuring estimated tax) for the current year. For 2017 tax tables, refer to your 1040 Forms and Instruction booklet or other official IRS publication.

For the most thorough job of tax planning possible, we strongly recommend consulting a tax professional.