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CERTIFIED PUBLIC ACCOUNTANTS

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2018 Year-End Tax Planning

In December 2017, the Tax Cuts and Jobs Act was signed into law, representing the most significant tax code overhaul in over three decades. The bill retains the seven tax brackets, but lowers a number of the tax rates and the income threshold for individuals. It places the corporate tax rate at a flat rate of 21%. The highest corporate tax rate used to be 35%.

1099 PENALTIES and W-2

The filing deadline and the deadline to give the forms to the recipients for 2018 is **January 31, 2019**. Make an effort to get these forms to the recipients before the end of January, so there is time for errors to be corrected before filing these forms with the Social Security Administration and the IRS. The penalty could be as much as $1000 for each omitted or incorrect 1099-MISC. Businesses are required to issue a 1099 whenever a payment is made to a non-corporate entity of $600 or more in one year.

If we prepare any forms W2 or 1099 for you or your household employees please get us the information in early January 2019 to meet the filing deadline.

CRS-1 MATCHING

New Mexico Taxation & Revenue has been aggressively comparing gross receipts reported on Form CRS-1 to the amount reported on tax returns. ***If you file your own CRS-1's, please send us copies of the reports with your tax information so we can ensure you are in compliance.***

CHANGES TO STANDARD DEDUCTIONS AND PERSONAL EXEMPTIONS

Single individuals see their standard deduction rise to $12,000, head of household rises to $18,000 and married filing jointly increases to $24,000. There is no longer a personal exemption. For a single taxpayer that takes the standard deduction their taxable income decreases by only $1,600 compared to 2017. In 2017, the standard deduction was $6,350 and personal exemption was $4,050. Total deduction was $10,400 in 2017 compared to $12,000 for 2018. Taxpayers 65 and older get an additional deduction of $1,600 for single and $1,300 for each married filing jointly.

CHILD TAX CREDITS INCREASE

The child tax credit doubles to $2,000 per qualifying child. Up to $1,400 of the child tax credit can be received as refundable credit (meaning it can go toward a tax refund). The new rule also includes a $500 nonrefundable credit per dependent other than a qualifying child.

ITEMIZED DEDUCTION CHANGES

- The itemized deduction for medical expenses is lowered to 7.5% for all taxpayers.

- Taxpayers are limited to claiming an itemized deduction of $10,000 in combined state income, sales & property taxes.
- Miscellaneous tax deductions for tax preparation, work related expenses and investment fees may not be claimed as an itemized deduction.
- New homeowners can include mortgage interest paid on up to $750,000 of principal value on a new home in their itemized deductions. This is down from $1 million in 2017.
- Personal casualty or theft losses are only allowed if the loss occurred during a federally declared disaster.
- The joint committee on taxation estimates that 94% of households will claim the standard deduction in 2018, up from 70% currently.

AFFORDABLE CARE ACT

Contrary to popular belief, you must still have qualified health insurance for all family members in 2018 or pay a penalty. ***If you receive a Form 1095 from any issuer or agency, we MUST have all copies to prepare your tax return***. Starting January 1, 2019, taxpayers who do not purchase health insurance will no longer face penalties.

ALIMONY CHANGES FOR 2019

The person making alimony or maintenance payments does not get to deduct them, the recipient also does not claim the payments as income. This goes into effect for any divorce or separation agreement signed or modified on or after January 1, 2019.

SEC. 179 EXPENSE AND BONUS DEPRECIATION FOR 2018

Section 179 of $1 million applies permanently. The assets must be placed in service in 2018 to qualify for depreciation in 2018. The new law increases the bonus depreciation percentage to 100% for qualified property acquired and placed in service after September 27, 2017. The definition of eligible property now includes **used** equipment placed into service.

IRA/401(k) CONTRIBUTION LIMITS

The simplest and most effective tax planning tool for all Americans of all income levels is full participation in retirement plans. Make sure you maximize your 401(k) deferral if available and contribute to tax deductible IRAs. For 2018, your total contributions to all of your traditional and Roth IRAs cannot be more than $5,500 ($6,500 if you=re age 50 or older), or your taxable compensation for the year, if your compensation was less than this dollar limit. Remember you have until April 15, 2019 to contribute to an IRA for the 2018 tax year.

Boost your 401(k) contributions

Unlike an IRA, which allows you to contribute for the 2018 tax year all the way up to the April 2019 tax deadline, your elective paycheck contributions to a 401(k) generally must be made before the end of the year. 401(k) contributions, unless they are characterized as Roth 401(k) contributions, reduce your adjusted gross income (AGI). For the 2018 tax year, you can defer up to $18,500 of your compensation into your 401(k), with and additional $6,000 catch–up contribution allowed if you're 50 or older. And to be perfectly clear, this doesn't include any employer matching contributions—this is just how much you can choose to contribute.

REQUIRED MINIMUM DISTRIBUTIONS IN 2018 (RMD)

If you are over 70½ you will need to make a required minimum distribution from your IRAs. If you turn age 70½ in 2018 you have until April 1, 2019 to take the distribution, but you must also take your 2019 distribution before December 31, 2019.

QUALIFIED CHARITABLE DISTRIBUTION (QCD)

For the charitable-minded taxpayer there is a popular way to transfer IRA assets to charity via a tax provision which allows IRA owners who are 70 ½ or older to direct up to $100,000 per year of their IRA distributions to charity. These distributions are known as qualified charitable distributions, or QCDs. The money given to charity counts toward the donor's required minimum distribution (RMD), but doesn't increase the donor's adjusted gross income or generate a tax bill.

CONVERTING FROM A TRADITIONAL IRA TO A ROTH IRA

Converting your traditional IRA to a Roth may still be a good idea in 2018. You can withdraw all or part of the assets from a traditional IRA and reinvest them (within 60 days) in a Roth IRA. The amount that you withdraw and timely contribute (convert) to the Roth IRA is called a conversion contribution. If properly (and timely) rolled over, the 10% additional tax on early distributions will not apply, but the distribution is still subject to Federal and State income tax. Please do not convert your accounts without contacting us to discuss the positives and negatives. All conversions for 2018 must be completed by December 31, 2018.

Roth Conversions: Beginning after December 31, 2017, the TCJA prohibits taxpayers who convert a pretax traditional IRA into a post-tax Roth IRA from later "recharacterizing" (that is, reversing) the conversion.

CAPITAL GAINS AND QUALIFIED DIVIDENDS

The TCJA retains the 0%, 15%, and 20% rates on long term capital gains and qualified dividends. However for 2018-2025, these rates have their own brackets that are no longer tied to the ordinary income brackets. A top rate of 15% applies to qualified dividends and on the sale of most appreciated assets held over one year for single filers with taxable income up to $425,800 and $479,000 for married filing jointly. Long-term capital gains or qualified dividend income over that threshold are now taxed at a rate of 20%. For 2018 a couple can have up to $77,200 in **taxable** income to snag the zero-percent capital gains rate Higher-income taxpayers may also be subject to the 3.8% Medicare surtax, making the long-term capital gains and qualified dividends subject to a 23.8% federal tax rate. Taxpayers in the 10% and 15% brackets may want to sell long-term investments before year end possibly qualifying for tax-free gains.

CREDITS FOR COLLEGE COSTS

If you are paying your dependents= tuition on a monthly basis, you will get a larger credit if you pay the balance due by December 31, 2018. Please bring in any Form 1098-T, Tuition Statements you receive. **We also need any documentation of payments made by you for tuition.**

529 COLLEGE SAVINGS PLAN

One significant change for the use of 529 plans is that the funds can now be used for grade levels K-12. Funds must be used for private school tuition or if you pay for tutoring.

NEW DEDUCTION FOR PASS-THROUGH BUSINESSES

The TCJA establishes a new deduction based on a non-C corporate owner's qualified business income (QBI). This break is available to individuals, estates and trusts operating businesses through partnerships, S corporations and sole proprietorships. The general concept behind Section 199A is to grant non-C corporation taxpayers a deduction equal to 20% of their QBI from a qualified trade or business. However, a series of complex definitions and limitations make the application of this general concept difficult.

FEDERAL SOLAR TAX CREDIT EXTENDED

The federal solar tax credit was extended through December 31, 2019. The credit remains at 30% through 2019, then decreases to 10%. The credit is available toward the cost of solar energy systems, fuel cells, small wind energy systems and geothermal heat pumps.

MEALS AND ENTERTAINMENT

Under the new law, for amounts paid or incurred after December 31, 2017, business-related entertainment expenses are no longer deductible. Meal expenses incurred while traveling on business are still 50% deductible, but the 50% disallowance rule will not also apply to meals provided via an on-premises cafeteria or otherwise on the employer's premises for the convenience of the employer.

The IRS has continued to increase the number of limited scope audits which are focusing on auto, travel and meals. It is very important that you keep an auto log to substantiate your business mileage. Also, keep a calendar of your meetings for meals you are deducting, naming whom you met with and what was discussed.

If you have any questions, please call Charlie, Barbara, or Marshall. There is still time to setup an appointment for year-end tax planning by December 31. We recommend a meeting if you have had any major changes during 2018 or are expecting major financial changes in 2019, such as retirement, inheritances, etc.

There are hundreds of other changes, extensions and deletions that we will consider this year while preparing you return. We thank you for your ongoing support and will do everything to keep your tax burden the lowest legal amount.

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