

The Accountant's Office

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2018 TAX PLANNING & TIPS

We are about to enter a tax season with many new tax laws. In fact, the "Tax Cuts and Jobs Act" (TCJA) signed 12/22/17 is the most sweeping tax 'reform' since 1986! As usual, the bill, which satisfied a few campaign pledges ('tax simplification'), was passed by politicians who have never prepared a tax return for themselves and then given to the IRS to implement. A TIGTA (Treasury Inspector General for Tax Administration) audit indicated the IRS expects to have to revise or create about 450 forms, publications, and instructions as well as modify about 140 IT systems to implement this act. TIGTA estimated 1.1 million labor hours are needed from 542 employees, but only 117 were in place by June. The IRS has missed 2 deadlines already but claims that the filing season will commence on January 29, 2019 (the latest it's ever been). Of course, the season isn't extended and we don't even get extra days this year as April 15 is on a Monday. The professional community expects to file a record number of extensions.

*Your 2018 tax appointment information is listed on the back of this organizer. **The Taxpayer Information, Address & Status, and Dependents sections are important to us so we ask that you complete at least that much of the organizer.** If your tax situation is similar to prior years, please feel free to drop off your taxes rather than wait for an appointment. You will still be asked to sign the Engagement Letter, Health Insurance Addendum, and provide basic information (highlighted above).*

PLEASE! If you are unable to make a scheduled appointment, call us! Time will be so very valuable this year and we need to use what little we'll have as efficiently as possible. Interviews will be limited to information gathering. Missing information returns will be set aside until all documentation has been received. You may also drop off all your tax documents and skip the interview process – we will contact you if we believe something is missing.

New Tax Laws

Suspension Provisions: 1/1/2018 - 12/31/2025

Standard Deduction - increased to \$24,000 for married individuals filing a joint return, \$18,000 for head-of-household filers, and \$12,000 for all other taxpayers, adjusted for inflation in tax years beginning after 2018.

Note: Even if you think you will not itemize your deductions for federal tax purposes, please bring in your receipts to your tax appointment because some information may be useful for state tax purposes.

Personal Exemptions - eliminated.

Child Tax Credit – Increased to \$2,000 (from \$1,000) in an effort to make up for the loss of the personal exemptions. The refundable portion has increased to \$1,400 per qualifying child. In addition, a \$500 nonrefundable credit is provided for certain non-child dependents (e.g. - the age 17 child).

Deduction for Personal Casualty & Theft Losses – eliminated, except for personal casualty losses incurred in a Federally-declared disaster.

Moving Expenses Deduction - eliminated, except for members of the Armed Forces on active duty who move pursuant to a military order and incident to a permanent change of duty station.

State and Local Tax Deduction – limited to a maximum deduction of up to \$10,000 (\$5,000 for a married taxpayer filing a separate return) for personal taxes paid (state withholding, state estimates, sales tax in lieu, real and personal property taxes). Foreign real property taxes may not be deducted.

Mortgage Interest Deduction - limited to Acquisition Indebtedness of up to \$750,000 (\$375,000 for married taxpayers filing separately) on loans made after 12/15/17. "Acquisition Indebtedness" = the amount to buy, build, or improve a home. Refinanced loans are Acquisition Indebtedness only for the portion of debt that was acquisition debt upon refinancing. Any additional debt is Equity Debt.

Home Equity Indebtedness Interest Deduction – eliminated unless acquisition debt.

Miscellaneous Itemized Deductions – eliminated only for deductions subject to the 2% floor (broker fees, union dues, safety deposit boxes, employee business expenses, uniform expenses, tax preparation fees.)

Deduction for Pass-through Income. The TCJA added a new section, Code Sec. 199A, "Qualified Business Income," (QBI) under which a non-corporate taxpayer (including a trust or estate) who has QBI from a partnership, S corporation, or sole proprietorship may be entitled to an income deduction of up to 20% of their QBI. QBI could also include net rental income, REIT dividends and publicly traded partnership (PTP) income.

New Law Provisions

Repeal of Obamacare Individual Mandate - For years beginning after December 31, 2018, the amount of the individual shared responsibility payment is reduced to zero. **Uninsured taxpayers will still be subject to a penalty in 2018.** NOTE: ONLY the penalty is repealed-taxpayers are still required to have minimum essential health coverage. Interestingly, Obamacare sign-ups are already down 4% for the 39 states administered by Centers for Medicare & Medicaid Services.

Like Kind (Sec 1031) Exchanges—VERY IMPORTANT - After December 31, 2017, the tax-free deferral treatment is **only** allowed for real property. This means that business personal property (e.g. business vehicle) that is traded for new business personal property is treated as a sale of the trade-in and a purchase of the new property. There will be tax ramifications to the sale and a new depreciable basis for the purchase but this is 2 separate tax transactions.

Expanded Use of 529 Account Funds - For distributions after December 31, 2017, “qualified higher education expenses” include tuition at an elementary or secondary public, private, or religious school, up to a \$10,000 limit per tax year.

Kiddie Tax Modified – After December 31, 2017, the taxable income of a child attributable to earned income is taxed under the rates for single individuals, and taxable income of a child attributable to net unearned income is taxed according to the brackets applicable to trusts and estates. This rule applies to the child's ordinary income and his or her income taxed at preferential rates.

Alimony - For any divorce or separation agreement executed after December 31, 2018, or executed before that date but modified after it (if the modification expressly provides that the new amendments apply), alimony and separate maintenance payments are not deductible by the payor spouse and are not included in the income of the payee spouse. For those taxpayers who were divorced before January 1, 2019 (and do not modify the divorce or separation agreement), the old rules will still apply.

Additional Information

Standard Mileage Rate. The following rates are applicable for the 2018 and 2019 tax years:

	<u>2018</u>	<u>2019</u>
Business	\$.545	\$.545
Medical	.18	.18
Moving	.18	.18
Charitable *	.14	.14

*Set by statute and not inflation adjusted

IRA contributions. The limit on annual contributions to an IRA remains \$5,500. The additional catch-up contribution limit for individuals aged 50 and over remains \$1,000.

Qualified Charitable Distribution (QCD). TCJA has made it more important than ever for taxpayers at least age 70½ to consider making a direct transfer (up to \$100,000 per year) from an IRA to charitable organizations. This qualifies as the Required Minimum Distribution (RMD), is not taxable to the taxpayer, and still gives a donation to favorite charities.

Head of Household Filing Status. A new preparer penalty was created to make us the IRS Gestapo. Please don't be offended when we require additional documentation to qualify for this filing status.

Important State Tax Information

Because TCJA was first enacted in December, 2017, the states have had plenty of time to determine which portions of this new law they will follow. Interestingly, WI has accepted almost every provision of TCJA that contributes to Adjusted Gross Income as well as the Itemized Deduction changes to mortgage and equity interest. WI specifically prohibits a distribution from a college savings account for the private school tuition subtraction. That would be double dipping!!

MN has not adopted any federal tax law changes enacted after December 16, 2016 that affect federal taxable income. MN income starts with Adjusted Gross Income but will now have several adjustments to make. MN standard deduction is \$13,000 for Married Filing Jointly, \$9,550 for Head of Household, and \$6,500 for Single. A taxpayer may be able to itemize for MN because they exceed the MN standard deduction. Additionally, MN taxpayers will be able to deduct \$4,150 for each eligible dependent on their 2018 tax return. MN did NOT accept the federal Like Kind Exchange rules, so all qualifying trades will be treated as Like Kind Exchanges.

You may have heard of the new ‘postcard’ form 1040. The reality of this satisfied campaign pledge is that the new 1040 is a standard sheet of paper that, folded in half is the front of the new form on top and the back on the bottom. All the rest of the lines that were on the ‘standard’ 1040 are now on 6 additional schedules! It feels like our elected politicians are a bunch of children demanding that the game is only played their way and the rest of us need to learn how to pacify these playground bullies.

PRIVACY POLICY

We do not disclose any non-public personal information about our clients or former clients to anyone, except as instructed to do so by such clients, or required by law. We restrict access to non-public personal information and we maintain physical, electronic, and procedural safeguards to guard your personal non-public information.