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250 South Ronald Reagan Blvd., Ste. 100 *E-Mail: SylviaCP@SCPresley.com* *Tel: (407) 331-7665*
Longwood, FL 32750-5466 *Website: www.SCPresley.com* *Fax: (407) 331-5884*

OCTOBER 2018 NEWSLETTER

Tax Cuts and Jobs Act Year-end Tax Planning

As the end of the year approaches, it is a good time to think of planning moves that will help lower your tax bill for this year and possibly the next.

We have compiled a checklist of actions based on current tax rules that may help you save tax dollars if you act before year-end. Not all actions will apply in your particular situation, but you (or a family member) will likely benefit from many of them. Schedule an appointment today so we can narrow down the specific actions that you can take once we meet with you to tailor a particular plan.

Year-End Tax Planning Moves for Individuals

- **Higher-income earners must be wary of the 3.8% surtax** on the lesser of: (1) net investment income (NII), or (2) the excess of modified adjusted gross income (MAGI) over a threshold amount ($250,000 for joint filers or surviving spouses, $125,000 for a married individual filing a separate return, and $200,000 in any other case). Some taxpayers should consider ways to minimize (e.g., through deferral) additional NII for the balance of the year.

- **The 0.9% additional Medicare tax** applies to individuals for whom the sum of their wages received with respect to employment and their self-employment income is in excess of an unindexed threshold amount ($250,000 for joint filers, $125,000 for married couples filing separately, and $200,000 in any other case). Employers must withhold the additional Medicare tax from wages in excess of $200,000 regardless of filing status or other income. Self-employed persons must take it into account in figuring estimated tax. There could be situations where an employee may need to have more withheld toward the end of the year to cover the tax.

- **Long-term capital gain from sales of assets** held for over one year is taxed at 0%, 15% or 20%, depending on the taxpayer's taxable income. The 0% rate generally applies to the excess of long-term capital gain over any short term capital loss to the extent that it, when added to regular taxable income, is not more than the "maximum zero rate amount" (e.g., $77,200 for a married couple). If you hold long-term appreciated-in-value assets, consider selling enough of them to generate long-term capital gains sheltered by the 0% rate.

- **Postpone income until 2019 and accelerate deductions into 2018** if doing so will enable you to claim larger deductions, credits, and other tax breaks for 2018 that are phased out over varying levels of adjusted gross income (AGI). These include deductible IRA contributions, child tax credits, higher education tax credits, and deductions for student loan interest. Postponing income also is desirable for those taxpayers who anticipate being in a lower tax bracket next year due to changed financial circumstances. Note, however, that in some cases, it may pay to actually accelerate income into 2018. For example, that may be the case where a person will have a more favorable filing status this year than next (e.g., head of household versus individual filing status), or expects to be in a higher tax bracket next year.

- If you believe a Roth IRA is better than a traditional IRA, **consider converting traditional-IRA money** invested in beaten-down stocks (or mutual funds) **into a Roth IRA** if eligible to do so. Keep in mind, however, that such a conversion will increase your AGI for 2018, and possibly reduce tax breaks geared to AGI (or modified AGI).

- It may be advantageous to try to arrange with your employer to **defer, until early 2019, a bonus** that may be coming your way. This could cut as well as defer your tax.

Beginning in 2018, the basic standard deduction has been increased (to $24,000 for joint filers, $12,000 for singles, $18,000 for heads of household, and $12,000 for marrieds filing separately), and many itemized deductions have been cut back or abolished. **No more than $10,000 of state and local taxes may be deducted; miscellaneous itemized deductions and unreimbursed employee expenses are no longer deductible; and personal casualty and theft losses are deductible only if they're deductible if attributable to a federally declared disaster** and only to the extent the $100-per-casualty and 10%-of-AGI limits are met. You can still itemize medical expenses to the extent they exceed 7.5% of your adjusted gross income, state and local taxes up to $10,000, your charitable contributions, plus interest deductions on a restricted amount of qualifying residence debt, but payments of those items won't save taxes if they don't cumulatively exceed the new, higher standard deduction.

- Consider using a credit card to **pay deductible expenses before the end of the year**. Doing so will increase your 2018 deductions even if you don't pay your credit card bill until after the end of the year.

- **Take required minimum distributions (RMDs) from your IRA or 401(k) plan** (or other employer-sponsored retirement plan). RMDs from IRAs must begin by April 1 of the year following the year you reach age 70-½. (That start date also applies to company plans, but non-5% company owners who continue working may defer RMDs until April 1 following the year they retire.) **Failure to take a required withdrawal can result in a penalty of 50% of the amount of the RMD not withdrawn.**

- **If you are age 70-½ or older by the end of 2018**, have traditional IRAs, and particularly if you can't itemize your deductions**, consider making 2018 charitable donations via qualified charitable distributions** from your IRAs. Such distributions are made directly to charities from your IRAs, and the amount of the contribution is neither included in your gross income nor deductible on Schedule A, Form 1040. But the amount of the qualified charitable distribution reduces the amount of your required minimum distribution, resulting in tax savings.

- **If you were younger than age 70-½** at the end of 2018, you anticipate that in the year that you turn 70-½ and/or in later years you will not itemize your deductions, **make maximum contributions to one or more traditional IRAs in 2018.**

- Consider increasing the amount you set aside for next year in your **employer's health flexible spending account** (FSA) if you set aside too little for this year.

- If you become eligible in December of 2018 to make **health savings account (HSA) contributions**, you can make a full year's worth of deductible HSA contributions for 2018.

- **Make gifts** sheltered by the annual gift tax exclusion before the end of the year and thereby save gift and estate taxes. The exclusion applies to gifts of up to $15,000 made in 2018 to each of an unlimited number of individuals.

- If you were in an area affected by Hurricane Florence or any other **federally declared disaster area**, and you suffered uninsured or unreimbursed disaster-related losses, keep in mind you can choose to claim them on either the return for the year the loss occurred (in this instance, the 2018 return normally filed next year), or the return for the prior year (2017).

- If you were in an area affected by Hurricane Florence or any other **federally declared disaster area**, you may want to settle an insurance or damage claim in 2018 in order to maximize your casualty loss deduction this year.

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