

AFM News and Views

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THE NEW TAX LAWS (SOURCE: CNBC.COM)

The new tax law has a bunch of changes. Here's what you need to know as filing season begins:

- Nearly 1 in 2 participants in a NerdWallet survey don't understand how the Tax Cuts and Jobs Act affects their tax bracket.
- Three in 10 of people polled said that they noticed an increase in pay after the tax overhaul.
- Jan. 28 marks the start of the first filing season under the new tax law.

It's time to sharpen your pencils and work on that 2018 income tax return. Just make sure you understand the new tax law first.

After one year under the Tax Cuts and Jobs Act, the overhaul of the federal tax code, a new survey from NerdWallet found that confusion about the law continues. Half of people polled by the personal finance website said they don't understand how the tax overhaul affects their bracket. Meanwhile, 3 out of 10 are unsure what exactly changed after the legislation was signed into law at the end of 2017.

"You expect people to be a little confused," said Andrea Coombes, a tax specialist for NerdWallet. "It's worrisome that people aren't up to speed on what's changed under the new law."

Tax law awareness

- One of the major changes that took place as a result was an increase to the standard deduction: \$12,000 for single filers and \$24,000 for married filing jointly in 2018.
- Personal and dependent exemptions, which you were able to claim for yourself, your spouse and each of your dependents, are now out of the picture.
- The law also placed limitations on itemized deductions, including a \$10,000 cap on the state and local tax deduction.
- Another thing that will grab your attention is that individual income tax rates overall have fallen.

Your 2019 individual income tax brackets

2019 Individual Income Tax Rates	Single-Taxable Income	Married Filing Jointly - Taxable Income	Head of Household - Taxable Income
10 percent	0 to \$9,700	0 to \$19,400	0 to \$13,850
12 percent	\$9,701 to \$39,475	\$19,401 to \$78,950	\$13,851 to \$52,850
22 percent	\$39,476 to \$84,200	\$78,951 to \$168,400	\$52,851 to \$84,200
24 percent	\$84,201 to \$160,725	\$168,401 to \$321,450	\$84,201 to \$160,700
32 percent	\$160,726 to \$204,100	\$321,451 to \$408,200	\$160,701 to \$204,100
35 percent	\$204,101 to \$510,300	\$408,201 to \$612,350	\$204,101 to \$510,300
37 percent	\$510,301 and up	\$612,351 and up	\$510,301 and up

Source: IRS

- The top rate is now 37 percent, compared to the highest rate of 39.6 percent prior to passage of the new law.

Withholding tweaks

With the new reality of lower tax rates and higher standard deductions, workers were supposed to make sure they adjusted the amount of income taxes withheld from their pay. Enter Form W-4 and the updated tax withholding tables — documents you use with your employer to tailor the amount of tax that comes out of your paycheck. The Treasury Department touted bigger paychecks for workers as a result of the [tax overhaul](#). About a third of the NerdWallet survey participants said that they noticed an increase in pay. However, the IRS has been encouraging filers to [review their withholding](#) in light of the new law. That's because workers who withhold too little in taxes may end up with a bigger paycheck for now — but they will owe come tax time. Withhold too much, and you're giving the government an interest-free loan. [Even retirees](#) were encouraged to review their withholding. The IRS granted a reprieve for taxpayers [this month](#), waiving the penalty for filers who paid at least 85 percent of their total tax liability for 2018. If you haven't reviewed your paycheck in 2019, get to it now.

Credits and deductions

- Families with children will notice that the new tax law has boosted the child tax credit to \$2,000 for each kid under age 17, which is double the amount under the old law.
- The dependent and childcare credit is also still around: You may claim a maximum of \$1,050 for one child under age 13 (\$2,100 for two or more kids).
- A slate of itemized deductions may be out of reach for many, however. For instance, you can only claim up to \$10,000 for the state and local tax deduction.
- Here's another break that's out: [Miscellaneous itemized deductions](#)— which allowed you to deduct unreimbursed employee costs, tax preparation fees, investment expenses and more, as long as they exceeded 2 percent of your adjusted gross income.

NEW FORM 1040 (SOURCE: MARKETWATCH.COM)

The 2018 Form 1040 is the size of a postcard, but filers may have to use several other forms in addition.

The IRS has released the new-and-improved Form 1040 for your 2018 individual federal income tax return. The good news is the return is now postcard-sized if your tax situation is super-simple. The bad news is it's probably not — in which case the new Form 1040 is just alarmingly different than before rather than simpler. So if you really hate change, stop here and hire a tax pro to prepare your 2018 return. Otherwise, please keep reading, but make sure you're sitting down.

Key Point: The due date for your 2018 Form 1040 is 4/15/19, unless you live in Maine or Massachusetts, in which case your deadline is 4/17/19. You can automatically extend your return to 10/15/19 by filing Form 4868 with the IRS on or before the applicable deadline. Find Form 4868 at www.irs.gov.

The base postcard return

The base Form 1040 for 2018, first unveiled last summer, is a two-sided postcard that looks like this.

IRS

The front side of the postcard is just for informational stuff like your name, address, Social Security number, dependents, and filing status. Your signature also goes on this side.

The back side is for numbers (income, deductions, taxes, and credits). It bears a family resemblance to the bottom half of page 1 and page 2 of the old Form 1040.

In the simplest situations, you only have to file the base postcard return. More likely, you'll also have to file one or more of new Schedules 1-6.

Even if you only have to file the base postcard return, you may have to fill out some worksheets that are included in the Form 1040 instructions. For example, if you claim the new deduction for qualified business income from pass-through entities (sole proprietorships, LLCs, partnerships, and S corporations), there's a worksheet to calculate your allowable deduction. You don't file these worksheets with your return, but you should keep them with your tax records for the year.

Key Point: Forms 1040A and 1040-EZ, which were simplified versions of the old Form 1040, have been eliminated for 2018. Everybody now files the base Form 1040 plus any additional required schedules and forms.

Those may include:

New Schedule 1 (Additional Income and Adjustments to Income)

If you have additional income and/or adjustments to income, you must file the new Schedule 1 with your base postcard return. For example, you must file Schedule 1 if you had business income, capital gains; unemployment compensation; alimony received; or gambling winnings. You must also file Schedule 1 if you are claiming so-called above-the-line deductions for things like deductible IRA and self-employed retirement plan contributions; self-employed health insurance premiums; 50% of self-employment tax; HSA contributions; student loan interest; or educator expenses.

New Schedule 2 (Tax)

File this if you owe the alternative minimum tax (AMT) or have to repay excess advance Obamacare premium tax credits that were sent to your health insurance company.

New Schedule 3: (Nonrefundable Credits)

File this if you are claiming nonrefundable tax credits other than the child tax credit or the new \$500 credit for other dependents. These include the credits for higher-education expenses, child and dependent care expenses, adoption expenses, retirement savers, residential energy-saving expenditures, electric vehicles, and foreign taxes.

New Schedule 4 (Other Taxes)

File this if you owe other taxes such as the 10% penalty tax on early retirement account withdrawals, the penalty tax for not having Obamacare-compliant health insurance coverage, the additional 0.9% Medicare tax on higher earners, or the 3.8% net investment income tax on higher-income individuals.

New Schedule 5 (Other Payments and Refundable Credits)

File this if you have tax payments or refundable credits (treated the same as tax payments) that cannot be entered directly on Form 1040. These include quarterly estimated tax payments, the tax payment with an extension request on Form 4868, the Obamacare health insurance premium tax credit, and the credit for overpaid Social Security tax if you had several employers last year.

New Schedule 6 (Foreign Address and Third-Party Designee)

File this if you have a foreign address or want to allow another person (other than your paid preparer) to discuss your return with the IRS.

You may still have to file some old-school schedules

As in the past, you may still have to file one or more of the following additional schedules with your base Form 1040.

* Schedule A if you itemize deductions. However, many folks won't be itemizing for 2018, because the standard deduction amounts were almost doubled by the Tax Cuts and Jobs Act. For 2018, the standard deductions are \$12,000 for unmarried individuals, \$24,000 for married joint-filing couples, and \$18,000 for heads of households.

* Schedule B if you had more than \$1,500 of income from interest and/or ordinary dividends or if you had certain types of interest and dividend income (such as tax-free interest from U.S. Savings Bonds used to pay qualified higher education expenses).

* Schedule C if you had a profit or loss from one or more business activities.

* Schedule D if you had capital gains or losses.

* Schedule E if you had royalty income or income or loss from rental real estate, a partnership, an LLC treated as a partnership for tax purposes, an S corporation, or an estate or trust.

* Schedule F if you had income or loss from a farming or ranching activity.

- * Schedule SE if you owe the self-employment tax.
- * Schedule H if you owe payroll taxes for household employees.
- * Schedule EIC if you are claiming the earned income tax credit.
- * Schedule 8812 if you are claiming the refundable additional child tax credit.

You may still have to file some old-school forms, too

As in the past, you may still have to file one or more additional tax forms with your base 2018 Form 1040. For example, if you owe the AMT, you must file Form 6251. If you had capital gains, you must Form 8949 in addition to Schedule D. If you claim the credit for child care expenses, you must file Form 2441. As in the past, the list goes on and on.

Has anything really changed?

As with most tax questions, the answer is yes and no. In the simplest situations, taxpayers can now file the postcard-sized base Form 1040 and be done with it. Good for them. These folks may be able to dispense with paid tax preparers. But if your tax situation has any degree of complexity, preparing your 2018 return won't be any easier than before. But it will be different. And your paid preparer may charge more than before as a result. Sorry about that.

WEEKLY UPDATES ARE AVAILABLE

LPL Financial's **Weekly Market Commentary** and **Weekly Economic Commentary** can be found on LPL Financial's website (http://www.lplfinancial.com/learning_center/research/).

OTHER UPDATES AVAILABLE FROM LPL RESEARCH DEPARTMENT

- Daily market update: <http://LPLresearch.com>
- YouTube Channel: <http://www.youtube.com/lplresearch> (which can also be found on our website)
- **Outlook 2018: Return of the Business Cycle** video can be found on LPL Research YouTube channel.

CLIENT CONNECT

Are you anticipating an e-mail change? Let us know. We want to make sure you receive all of our e-mail communications. Send your new e-mail to melissa.arbisi@lpl.com

If you have any input or comments about our newsletter, let us know. We love to hear from you!!

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Till next month,

The Alltrust Team

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