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When is the last time you have had your tax returns examined? Have you had your tax returns examined?

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The Draft 1040

Adjusted for the Tax Law Changes

Jerry Lynch

The ratification of the 16th Amendment allowed for the collection of income tax. Starting in 1913, American taxpayers used IRS Form 1040 to prepare and file their tax returns. The first tax return was three pages with only one page of instructions. Over the last 100+ years, the length of the instructions has changed numerous times.

In 2017, Congress passed the largest piece of tax reform legislation in over three decades. To conform to the changes that need to be implemented due to this new Tax Cuts and Jobs Act, the IRS released over 50 drafts or revised forms and schedules on its website in June.

The most anticipated one was the 1040, U.S. Individual Income Tax Return form. As promised, the “postcard” size was achieved, and Form 1040 was reduced to one double-sided half page, as compared to the previous two full pages. The objective was to simplify the tax reporting process for many taxpayers. The first page is primarily text data including contact information, social security number, filing status, dependents, signature, and of course, the option to donate to the presidential election campaign. The second page is dedicated to the actual

Form 1040 (2018) - Page 1. This is the top section of the tax form, containing personal information and filing status. It includes fields for the taxpayer's name, social security number, spouse's information, and various checkboxes for filing status (Married, Qualifying widow(er), Head of household) and standard deduction options. There are also sections for dependents, a signature area, and preparer information. A large watermark 'DRAFT AS OF JUNE 29, 2018 DO NOT FILE' is overlaid on the form.

Form 1040 (2018) - Page 2. This is the calculation section of the tax form, featuring a grid of lines for entering income, deductions, and taxes. It includes sections for 'Standard Deduction for', 'Refund', and 'Amount You Owe'. The grid contains 23 numbered lines with corresponding boxes for numerical entry. A large watermark 'DRAFT AS OF JUNE 29, 2018 DO NOT FILE' is overlaid on the form.

monetary information needed to complete this tax form. This new 1040 also consolidates and replaces 1040A and

1040EZ, two forms that will no longer be necessary. This means that starting in 2019 (for 2018 tax returns), all 150 million taxpayers will be using the same form.

The Treasury projects that 65% of taxpayers will only have to file the new 1040, plus at most one additional schedule. However, that leaves the remaining 35% potentially finding this attempt at simplification more confusing than ever. When looking at the proposed 1040, here are things to remember.

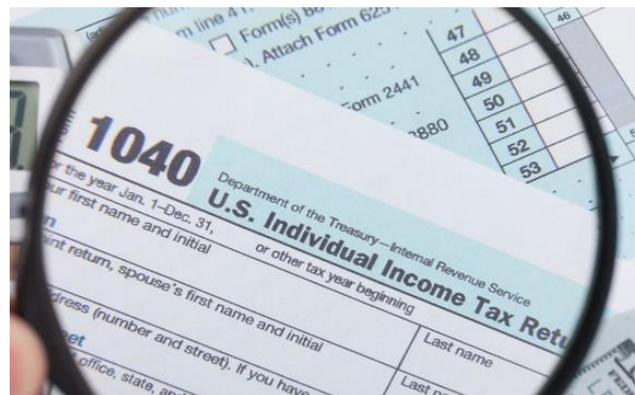
It's still a draft.

The IRS warns taxpayers not to file the recently released 1040 as it is still in draft form, stating, "This is an early release draft of the 2018 IRS Form 1040, U.S. Individual Income Tax Return, which the IRS is providing for your information, review, and comment... Do not file draft forms. Also, do not rely on draft forms, instructions, and publications for filing. We generally do not release drafts of forms until we believe we have incorporated all changes. However, in this case **we anticipate it is likely that this draft will change at least slightly before being released as final.** Whether this draft changes or not, we will post a new draft later this summer with our standard coversheet indicating we do not expect that draft to change."

As promised, it's smaller.

The new 1040 has only 23 numbered lines, as compared to the previous 79 on the old 1040 form. As previously stated, it should replace not only the 1040 but also forms 1040a and 1040EZ. Many lines have been consolidated or moved to schedules.

Does size really matter? The IRS expects that almost 90% of taxpayers will file their taxes electronically or use a tax preparer, making the length of tax forms



inconsequential. The changes, additions and deletions of lines, which are supposed to make it easier to fill out and understand, are what matter the most.

Steve Mnuchin, Treasury Secretary, said, "Our objective is to make this simpler for taxpayers, whether they're doing it electronically or whether they're doing it on a physical form."

It has six additional schedules.

The new 1040 has created a "building block" approach to tax reporting. Ideally, taxpayers with straightforward taxes will embrace this simplified form, however, those with more complex finances will have to be mindful of the schedules and

what are included on them. For example, deductions and other items are now relegated to a schedule. Some individuals may become confused or overlook potential tax breaks due to them no longer being on Form 1040 and must be filled out on a separate schedule. For example, this includes student loan interest deductions, teaching supply deductions and taxes on household employees. While these schedules are mostly short in and of themselves, they could complicate the tax filing process for many taxpayers.

The schedules are:

- **Schedule 1: Additional Income and Adjustments to Income. (37 lines)**

Includes lines 10 through 37 from the 2017 1040 form. This schedule contains items such as capital gains and losses, student loan interest expense and business income.

- **Schedule 2: Tax. (7 lines)**

You'll find the previous 1040 lines 44 through 47 on this schedule, including the Kiddie Tax, alternative minimum tax and excess premium tax credit refunds.

- **Schedule 3: Nonrefundable Credits. (10 lines)**

This includes information from the previous 1040 lines 48 through 55, including credit for child and dependent child care, education credit and energy credit.

- **Schedule 4: Other Taxes (12 lines)**

This includes the lines 57 through 63 previously on the 1040, including Medicare, Social Security, household employment and net investment income taxes.

- **Schedule 5: Other Payments and Refundable Credits. (14 lines)**

This includes what was formerly on the 1040 as lines 65 through 74.

- **Schedule 6: Foreign Address and Third-Party Designee. (3 rows)**

This simply provides taxpayers with a foreign address a line to list their country, province and postal code and provides a place to list a third-party designee who is authorized to discuss the return with the IRS.

These new schedules do not replace the current schedules such as Schedule C – which will be modified with any changes necessary to reflect the changes in the new tax law.

Some items were removed due to the new tax code.

As some items were taken out of tax code, they were consequently taken out of the 1040. For example, there are no personal exemptions available for 2018 – 2025, so these lines were removed.

The former area for adjusted income reporting was eliminated. Line items that were not eliminated from tax code can now be found combined on other lines or the new Schedule 1.

An item was added due to the new tax code

Line 9 was created for the 20% deduction for income earned by pass-through businesses such as partnerships and S corporations.

Schedule 4 – “Other taxes”

Line 14, labeled as “Other Taxes” will refer you to a new Schedule 4. This schedule is for a collection of “other taxes” including self-employment tax, Medicare and Social Security tax, high-income household taxes, household employment tax, repayment of first time homebuyer credit, net investment income tax and the penalty for not having health care (2018 will be the last year this penalty is included).

Do you have questions about the draft 1040?

The IRS has a special email for those who have questions about the new draft form 1040. You can contact



them at WI.1040.Comments@IRS.gov. They do warn however, that they cannot respond to all comments due to high volume.

Conclusion

As mentioned, it is expected that 90% of taxpayers will file their taxes electronically or use a tax preparer. Some people are speculating that the changes are merely aesthetic. “Is this a question of form over substance?” asked Bob Kerr, Executive Vice President of the National Association of Enrolled Agents. He also questioned individual states ability to adjust to the new forms, citing, “Are states ready to adjust their programming as IRS iterates version of the new Form 1040?” The changes will be costly as it will require many state and local tax forms to conform to the changes. *(Source: www.money.us.news.com 7/5/2018)*

The main attempt was to streamline the tax recording process for most taxpayers. The final judgement will start after the forms are finalized and taxpayers begin to use and file them.

Our aim is to try to be proactive about tax planning. We are keeping an eye on the changes and how they may affect your investments. Our goal is to understand your specific needs and then create a plan to address those needs. We anticipate sending clients a year-end tax report that will offer ideas on tax planning.

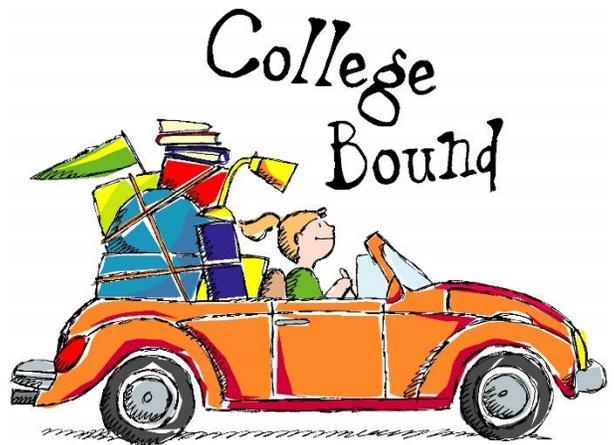
IMPORTANT INFORMATION FOR COLLEGE STUDENTS AND THEIR PARENTS

Some of you have kids that are going off to college very soon. You're going through your checklists of things which need to be completed, whether its dorm room essentials, new clothing, paperwork required by the school, etc. One of the most frustrating things for parents of college students is that the colleges do not release their kid's grades directly to them, even if they are paying the tuition, as it is deemed "confidential information." With that in mind, if their grades are considered confidential information, do you think that their medical information is????

Under the Health Insurance Portability and Accountability Act (HIPAA), your medical information is private, unless you give someone authorization to access it. This means that your adult children's medical information is confidential and you cannot authorize medical treatment without their permission. In the event that your child is not conscious or capable of authorizing care, you have a big problem!

What do you need to do? Generally, a Health Care Power of Attorney that will give you the ability to get information on your adult children's medical information.

You need to have an original document and you should also have your child's physician have a copy of that as well. I would also suggest that the health care facility at the school get a copy as well.



Any medical situation is very stressful, especially with a child who is away at college. **If you or any of your friends have adult children going to college, you need to speak to your estate attorney to draw up the documents that are necessary for you to be able to help your kids. If you need a referral to a good estate attorney, we can assist you with that.**

MYTH vs. FACT Discovering the Truths About Long Term Care

MORE PEOPLE TODAY WILL NEED LONG TERM CARE (LTC) SERVICES AT HOME, IN ASSISTED LIVING OR IN A NURSING HOME. THE COST FOR CARE IS RISING. COMMON MYTHS ABOUT LTC KEEP PEOPLE FROM PREPARING FOR YOUR FUTURE NEEDS.

Myth #1- The government will take care of me.

- **Facts-** Government programs are tough to qualify for.
- Public programs like Medicare, Medicaid, and veterans' services may help pay for some LTC services in certain circumstances.
- When Medicaid does pay someone's LTC costs, federal law requires state to recover money spent from the person's estate.
- Government programs are limited by availability and financial resources.

Myth #2- I can save the money I'll need for LTC services

- **Facts-** Long-term care services can be very expensive.
- These costs are huge financial risk to older adults' retirement dollars.
- Those who plan to pay LTC expenses could quickly wipe out their lifetime savings.

Myth #3- "Only old people need LTC services"

- **Facts:** Among adults 65 and older, about 70 percent need some help with the activities of dialing living as they age.
- It's wise to look into LTC protection before services are needed for two primary reasons; cost and need.

Myth #4- "I don't need LTC protection because I have health insurance"

- **Facts:** LTC protection is not the same as health insurance.
- Health insurance helps pay for medical care only.
- LTC services generally are required by those with chronic progressive illnesses, accidents or advanced aging.

Myth #5- LTC protection pays for nursing home care only

- **Facts-** LTC Protection provides options in a range of medical, personal and social services in a variety of settings.

Myth #6- "I can't afford LTC Insurance"

- **Facts:** The costs can fit most budget and financial goals.
- Not having protection can be costlier.
- LTC costs can quickly deplete a person's savings.
- Many funding options are available.

Myth #7- We don't need LTC protection because we have each other

- **Facts:** LTC situations impact families across generations.
- LTC Situations can take a heavy emotional and financial toll on even close, strong families.

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