



# 2018 TAX PLANNING



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TAX & WEALTH MANAGEMENT

Time to Plan Your

YEAR-END TAXES

The winter season is full of holiday bustle. Between spending time with your family and friends, your taxes usually are not top of mind. Yet any free moments you can spare now will help you stay ahead in 2018. We are happy to share with you our 2018 tax guide so you can make the most of your financial strategies.

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### INTRODUCTION

The word “taxes” may not be on the top of everyone’s list of favorite things to address. But, with some forward-looking preparations, managing your taxes does not have to be burdensome.

Fortunately, this past year brought positive economic trends. Record market performance, increased Gross Domestic Product output, and more, helped our economy remain robust.<sup>1</sup> Though we do not know exactly what the 2018 tax environment will look like, you can still get a head start on preparing your 2017 tax filing and create efficiency in your tax strategies this year.

Our tax guide offers you tips to stay on track this year. Before you act on any strategies in this report, we encourage you to consult with your tax professional about the options that are right for you.

### WHAT LIES AHEAD IN 2018?

The IRS recently announced its inflation adjustments for the 2018 tax year. Below are the revised federal income tax brackets.

2017 TAX BRACKETS:			2018 TAX BRACKETS:		
RATE	SINGLE	JOINT	RATE	SINGLE	JOINT
10%	Up to \$9,325	Up to \$18,650	10%	Up to \$9,525	Up to \$19,050
15%	\$9,326 to \$37,950	\$18,651 to \$75,900	12%	\$9,526 to \$38,700	\$19,051 to \$77,400
25%	\$37,951 to \$91,900	\$75,901 to \$153,100	22%	\$38,701 to \$82,500	\$77,401 to \$165,000
28%	\$91,901 to \$191,650	\$153,101 to \$233,350	24%	\$82,501 to \$157,500	\$165,001 to \$315,000
33%	\$191,651 to \$416,700	\$233,351 to \$416,700	32%	\$157,501 to \$200,000	\$315,001 to \$400,000
35%	\$416,701 to \$418,400	\$416,701 to \$470,700	35%	\$200,001 to \$500,000	\$400,001 to \$600,000
39.6%	Over \$418,400	Over \$470,700	37%	Over \$500,000	Over \$600,000

[HTTPS://WWW.IRS.GOV/PUB/IRS-DROP/RP-17-58.PDF](https://www.irs.gov/pub/irs-drop/rp-17-58.pdf)

[HTTPS://WWW.FORBES.COM/SITES/ROBERTBERGER/2017/12/17/THE-NEW-2018-FEDERAL-INCOME-TAX-BRACKETS-RATES/#AA72484292A3](https://www.forbes.com/sites/robertberger/2017/12/17/the-new-2018-federal-income-tax-brackets-rates/#AA72484292A3)

# ACTIONS YOU CAN TAKE

## GET ORGANIZED

Now is an excellent time to put your financial house in order. Start by gathering cash receipts to help you calculate possible deductions and miscellaneous payments.

Ask yourself these questions as you organize:

- **DO YOU HAVE A HOBBY OR ACTIVITY THAT GENERATES REPORTABLE INCOME?** Compile and track all money you brought in.
- **HAVE YOU MADE HOME IMPROVEMENTS OR CHARITABLE DONATIONS?** Be sure to save all receipts and have written documentation, as needed.
- **DID YOU INCUR HIGH MEDICAL EXPENSES?** You may be eligible for deductions.

Collect all your documentation early to make your life a little easier in April. Consult a tax professional to discuss your personal situation.

## CONTRIBUTE MAXIMUM AMOUNT TO RETIREMENT ACCOUNTS

You have until April 17, 2018, to contribute your maximum amounts to your IRA accounts (dates may vary by state).

In 2018, you can contribute a maximum of \$5,500 per person, plus an extra \$1,000 if you are 50 and older. You can also split this limit between a traditional IRA and a Roth IRA if it works for your financial goals.<sup>2</sup> The sooner you contribute the money, the sooner the funds are put to work with any potential growth being tax deferred. Making deductible contributions also reduces your taxable income for the year.

## CHECK YOUR IRA DISTRIBUTIONS

Once you turn 70 ½ years old, you must take Required Minimum Distributions (RMD) from your traditional IRA by April 1. For example, if you turned 70 on August 10, 2017, you turn 70 ½ by February 10, 2018. From there, you take your first RMD by April 1, 2019, and then a second payment by December 31, 2019. Every year thereafter, you take an annual RMD by December 31. The amount you withdraw depends on your age, life expectancy, and account balance.<sup>3</sup>

Stay on track for important tax benchmarks with these key dates:

### JANUARY 16, 2018

#### 4TH QUARTER 2017 ESTIMATED TAX PAYMENT DUE

If you are self-employed or have other 4th quarter income that requires you to pay quarterly estimated taxes, postmark this payment by January 16, 2018.

### APRIL 17, 2018

#### 2018 INDIVIDUAL TAX RETURNS DUE

Most taxpayers have until April 17 to file tax returns. Email or postmark your returns by midnight on this date.

#### INDIVIDUAL TAX RETURN EXTENSION FORM DUE

If you cannot file your taxes on time, file your request for an extension by April 17 to push your deadline forward to October 15, 2018.

#### 1ST QUARTER 2018 ESTIMATED TAX PAYMENT DUE

Pay your first estimated tax payment for 2018 by this date.

#### LAST DAY TO MAKE A 2017 IRA CONTRIBUTION

Make a final 2017 contribution to your retirement account by April 17 for funding a traditional IRA or Roth IRA. If you plan to file an extension, you have until October 15 to contribute to a Keogh or SEP plan.

### JUNE 15, 2018

#### 2ND QUARTER 2018 ESTIMATED TAX PAYMENT DUE

Pay your second estimated tax payment for 2018 by this date.

### SEPTEMBER 17, 2018

#### 3RD QUARTER 2018 ESTIMATED TAX PAYMENT DUE

Pay your third estimated tax payment for 2018 by this date.

### OCTOBER 15, 2018

#### EXTENDED INDIVIDUAL TAX RETURNS DUE

If you received an extension, you have until October 15 to file your 2017 tax return.

#### LAST CHANCE TO RECHARACTERIZE 2017 ROTH IRA CONVERSION

October 15 is the deadline to undo any traditional IRA that you converted to a Roth and paid taxes on in 2017.<sup>4</sup>



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\*Cut along the dotted line to keep this calendar for later use! If you have questions, please give us a call at 281-362-1444.

## IMPORTANT TAX ISSUES & UPDATES FOR 2018

### SOCIAL SECURITY TAX CHANGES

- **Tax Cap:** The current Social Security tax cap is 6.2% for most employees. This year, however, the maximum taxable earnings amount increases from \$127,200 to \$128,400. The Social Security Administration estimates that this increase will see 12 million people paying more into Social Security as a result of this change.
- **Payments Increase:** The average monthly Social Security payments increase this year. Individuals will have an average increase of \$27 to \$1,404 monthly. Couples who both receive benefits will have an increase of \$46 to \$2,340.<sup>5</sup>

### MEDICAL EXPENSE DEDUCTIONS

Under the former tax code, individuals with medical expenses over 10% of their adjusted gross income could claim deductions. The new deduction is 7.5%, which applies to 2017 and this year.<sup>6</sup> The law reverts to the 10% in 2019.

### ALTERNATIVE MINIMUM TAX (AMT) IN 2018

The IRS once again adjusted the AMT thresholds. For 2017 the AMT exemption is \$54,300 for individuals and \$84,500 for married couples filing jointly. The IRS raised the AMT exemption amount to \$70,300 for individuals and \$109,400 for married couples filing jointly.<sup>7</sup>

### PEP AND PEASE IN 2018

PEP and Pease are two provisions that had increased the tax liabilities on wealthy taxpayers by limiting personal exemptions and deductions. Both provisions are being phased out.<sup>8</sup>

## FATTEN YOUR EMPLOYER-SPONSORED PLAN

Tax-deferred investing allows you to grow your money tax-free until you withdraw the funds. Make sure that you put in as much money as you can in order to maximize the benefits. You can beef up your 401(k), 403(b), 457, and TSP contributions up to \$18,500. If you will be age 50 or older this year, then you can contribute up to \$24,500.<sup>9</sup>

## WEIGH THE BENEFITS OF HARVESTING LOSSES

To avoid paying capital gains taxes, many investors sell off investments (such as stocks) that have experienced losses. The goal is to help offset any taxable gains realized during the year. If you think that you might have a heavy capital gains burden this year, talk with your financial and tax professionals. They can help you identify whether loss harvesting may be a sound strategy for you.<sup>10</sup>

## PAY ATTENTION TO YOUR FSA

Remember that you can take tax-free withdrawals from Flexible Spending Accounts (FSA) for qualified medical, dental, and child-care costs. This year, the annual limit for employee contributions to sponsored health FSAs is \$2,650. Depending on your employer's policies, you may lose any balance left in these accounts at the end of the year. This is the time of year when you might need to specify how much salary you will contribute to your FSA.<sup>11</sup>

## CONSIDER ACCELERATING YOUR MORTGAGE PAYMENTS

Unlike rent—which you pay in advance for the current month—mortgage payments represent money owed for the previous period. Your January 2018 mortgage statement is actually a bill for December occupancy and represents interest accrued in 2017, making it eligible for a tax break this year. By mailing that mortgage check in advance and paying early, you might qualify for an additional deduction for 2017. By doing so, your lender officially notes the payment to the IRS for 2017.

Unfortunately, you cannot accelerate your mortgage payments for any other upcoming month because the

IRS generally prohibits write-offs for prepaid interest. Keep in mind that everyone's tax situation is different. If you are unsure what strategy is best for you, discuss the matter with your tax professional.<sup>12</sup>

## BE CHARITABLE

If you itemize deductions, a gift to a qualified organization may entitle you to a charitable contribution deduction against your income tax. In this manner, the tax savings reduces the actual donation cost. Typically, the IRS caps charitable donations at 50% of your Adjusted Gross Income (AGI), though lower limits may apply in some cases. In addition, as your income tax bracket increases, the real cost of your charitable gift decreases. Thus, people in higher brackets may find contributions more attractive to make.<sup>13</sup>

## DONATE ITEMS

Donating items to charity is a popular way to give back to your community, which you can also deduct from your taxes. To do so, you must have written documentation of your donation from each charity for items valued more than \$250.<sup>14</sup> Here are a couple things you need to know about donating items:

- **Donated items:** You generally can deduct the fair market value of an item. Further, you may need to make adjustments if you donated an item that increased in value.
- **Donations to qualified organizations only:** You can only deduct donations that you made to qualified organizations, as recognized by the IRS.<sup>15</sup>

## GIVE A GIFT

Each year, you can also pass money to loved ones tax free. You can give up to the annual exclusion amount (\$15,000 in 2018) to as many people as you like every year without facing any gift taxes. Recipients never owe income tax on the gifts,

unless they agree to pay them.<sup>16</sup> In addition to the annual gift amount for 2018, the estate and gift tax threshold may rise to \$11.2 million per individual. The IRS hasn't published an official figure yet.<sup>17</sup> The IRS indexes this limit to inflation. The tax-exemption rate will continue to rise each year, increasing the amount that you can gift to your loved ones without owing estate taxes.

## FUND AN EDUCATION

The IRS offers taxpayers several credits and deductions to help offset the cost of education. Two common credits include:

- **AMERICAN OPPORTUNITY TAX CREDIT:** The 2018 rate remains unchanged and allows you to claim qualified expenses up to \$2,500. Because a tax credit reduces your tax bill dollar for dollar, the government will give you up to \$2,500 per year for each qualifying college student in your family.<sup>18</sup>
- **LIFETIME LEARNING CREDIT:** The credit allows you to claim qualified expenses up to a maximum of \$2,000 per tax return. The expenses can be for tuition and other related costs for students actively enrolled in an eligible educational institution. The credit applies to coursework that is for undergraduate, graduate, or professional degrees, as well as ones that help you gain or improve job-related skills.<sup>19</sup>

Keep in mind that income restrictions kick in for these credits, so check with your tax professional to know if you qualify. Also, the IRS requires taxpayers to submit a Form 1098-T to show the amount paid in qualified tuition and expenses to claim education credits.<sup>20</sup>

## MANAGE YOUR MEDICARE TAXES

If you use Medicare, you will also have additional taxes to manage beyond what your employer automatically takes out from each paycheck. High-wage earners will have to pay an additional 0.9% on earned income above the thresholds of

\$200,000 for single filers and \$250,000 for joint filers.<sup>21</sup> These brackets are not indexed for inflation, so they will affect more taxpayers each year. If you are in the affected income brackets, speak with your investment representative and accounting professional to discuss your tax liabilities.

## CONCLUSION AND STEPS TO TAKE

Creating tax-efficient financial strategies takes time, effort, and experience—something we know adds an additional layer of complexity to your busy life. As your client, we help you by working hard to minimize investing tax liabilities and maximize your bottom line. We also consider it our responsibility to educate you about details that could affect your financial future.

We hope that this report provides useful, relevant strategies to consider as you prepare your 2017 tax returns and begin planning for your 2018 tax year. If you have any questions about your taxes or how tax-efficient strategies may help reduce your burden, please give us a call. We also recommend that you speak with a qualified tax professional who can advise you on the specifics of your personal financial situation.

As always, we appreciate the trust you place in our firm, and we look forward to continuing to help provide the financial clarity you seek.

Sincerely,



Jeremy M. Matranga, RFC  
President & CEO

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IF SO, CALL OUR OFFICE AT 281-362-1444 AND SHARE WITH US THEIR CONTACT  
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## FOOTNOTES, DISCLOSURES, AND SOURCES

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<sup>1</sup> Dow and S&P 500 Close Lower, Snap Longest Weekly Winning Streak in 4 Years. CNBC. <https://www.cnbc.com/2017/11/10/us-stocks-tax-reform-nvidia-earnings.html> [Accessed November 11, 2017]

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<sup>9</sup> How Much Salary Can You Defer If You're Eligible for More Than One Retirement Plan? IRS. <https://www.irs.gov/retirement-plans/how-much-salary-can-you-defer-if-youre-eligible-for-more-than-one-retirement-plan> [Accessed November 13, 2017]

<sup>10</sup> A Quick Primer on Tax Loss Harvesting. Kiplinger. [https://www.kiplinger.com/article/taxes/T052-C032-S014-a-quick-primer-on-tax-loss-](https://www.kiplinger.com/article/taxes/T052-C032-S014-a-quick-primer-on-tax-loss-harvesting.html)

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<sup>11</sup> 2018 FSA Changes: Use a Flexible Spending Account to Cut Your Tax Bill. The Motley Fool. <https://www.fool.com/taxes/2017/11/05/2018-fsa-changes-use-a-flexible-spending-account-t.aspx> [Accessed November 11, 2017]

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<sup>18</sup> American Opportunity Tax Credit. IRS. <https://www.irs.gov/credits-deductions/individuals/aotc> [Accessed November 13, 2017]

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