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GENERATIONAL
WEALTH MANAGEMENT
A Registered Investment Advisor

Re: Tips for Tax Deduction and Credit Planning

The countdown to tax day has begun. December 31, 2017 closed the books on the old year and started the 15 week clock to the federal tax filing day on April 17, 2018. Officially set for April 15 of every year, the IRS moved this year's date to April 17, a Tuesday. April 15 this year is a Sunday, and April 16 is Emancipation Day, which is celebrated as a federal holiday.¹

The close of 2017 brought some major legislative changes to the tax code, which means taxpayers will have to rethink how they prepare their taxes to take advantage of the various credits and deductions.

While President Trump's "Tax Cuts and Jobs Act" significantly slashed both individual and corporate tax rates, making it the most radical overhaul of tax law in more than 30 years, most of the changes won't apply to filers this year. This year's returns are based on the 2017 tax year, which is governed by the previous rules. However, there are a few minor distinctions you should monitor as you prepare your taxes.

Here we lay out tips for deductions and credit planning to optimize your return.

Understanding Credits

The IRS offers 2 types of tax credits:² nonrefundable and refundable. The nonrefundable credit allows you to obtain a refund only up to the amount of taxes you owe. A refundable credit provides a refund, even if it's more than the taxes you owe.³

Here are some of the top tax credits:

- **Earned Income Tax Credit (EITC):** The maximum EITC is \$6,318⁴ for taxpayers who file jointly and who have at least 3 children. The number rises to \$6,444 for tax year 2018. Although this credit is designed to help lower-income people, only about 25% of eligible taxpayers use this credit.⁵ It is also available to middle-class and higher-income workers who may have faced financial setbacks, such as job losses, pay cuts, or work-time reductions.

- **Child & Dependent Care Credit:** The \$3,000 to provide care for a dependent child remains the same for tax years 2017 and 2018.⁶ The figure is \$6,000 to care for two or more children. The credit amount is 20-35% of your allowable expenses and depends on your adjusted gross income.
- **Adoption Credit:** You can claim a credit for expenses in adopting a child.⁷ It's \$13,570 per child.⁸ If your modified gross income is \$203,541-\$243,539 for 2017, your credit is reduced. The 2018 range is \$207,580-\$247,580.⁹
- **Lifetime Learning Credit:** The IRS offers a credit of up to \$2,000 per year for qualified tuition and enrollment fees at an educational institution.¹⁰ To qualify for this credit, your modified adjusted gross income must be \$65,000 or less (\$130,000 or less for married filing jointly) for tax year 2017.¹¹ The credit is \$57,000 for individuals and \$114,000 for joint filers in 2018.¹²
- **Premium Tax Credit:** If you bought health insurance from a federally organized or state-based Health Insurance Marketplace, you may be able to claim this credit.¹³ The credit is based on your estimated income, which must be between 100% and 400% of the federal poverty level.¹⁴ The level is based on household size.¹⁵ The purpose of this credit was to help offset insurance premium costs.¹⁶

Doing the Deductions

Deductions help lower your taxable income. The more than 45 million taxpayers who itemized their tax returns were able to claim \$1.2 trillion in deductions.¹⁷ Those who took the standardized deductions were able to claim \$747 billion.

You will still be able to itemize deductions for mortgage interest, tuition, and contributions to charity and nonprofits. Here are several other deductions you can use. Some will change for the 2018 tax year.

- **State Sales Tax:** This helps those who live in states that do not have income taxes. You must choose between deducting state and local income taxes, or state and local sales taxes.¹⁸ This deduction helps those who made large purchases during tax year 2017, such as cars or boats. The IRS provides a sales tax calculator to help you with your taxes.¹⁹ The new tax code for the 2018 tax year caps the deduction at \$10,000, which applies during tax filing in early 2019.²⁰
- **Business Travel Expenses:** This allows you to deduct expenses for business travel.²¹ Expenses include transportation, lodging, dry cleaning, meals, business calls, and more.

- **Student Loan Interest:** You can take this deduction if you're paying interest on a qualified student loan.²² You may deduct \$2,500 or the interest amount you paid in 2017, whichever is lowest. You can claim this deduction even if you don't itemize. This deduction continues under the new tax bill.
- **Sale of Your Home:** If you sold your home in 2017 and generated a capital gain of up to \$250,000 (or \$500,000 if you're filing a joint return with your spouse), you may qualify to exclude the amount of the sale from your income.²³

The IRS provides a wide variety of opportunities to lower your tax bills. Consult with a tax preparer or tax professional to learn more about what's available. If you have questions, we would be happy to talk with you. We're also able to connect you with qualified tax professionals if you need additional support.

Kind Regards,

The Team at GENERATIONAL WEALTH MANAGEMENT

Footnotes, disclosures, and sources:

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¹ <http://www.businessinsider.com/tax-day-2018-april-deadline-2017-12>

² <https://www.irs.gov/credits-deductions/individuals>

³ <https://www.forbes.com/sites/kellyphillipserb/2017/10/19/irs-announces-2018-tax-brackets-standard-deduction-amounts-and-more/#2e27d06b273b>

⁴ <https://turbotax.intuit.com/tax-tips/tax-deductions-and-credits/5-facts-about-the-earned-income-tax-credit/L6YfN8sCL>

⁵ <https://turbotax.intuit.com/tax-tips/fun-facts/the-10-most-overlooked-tax-deductions/L2WjmvZAH>

⁶ <https://www.irs.gov/credits-deductions/individuals/child-and-dependent-care-credit>

⁷ <https://www.irs.gov/businesses/small-businesses-self-employed/adoption-credit-glance>

⁸ <https://www.nacac.org/help/adoption-tax-credit/adoption-tax-credit-2017/>

⁹ <https://www.forbes.com/sites/kellyphillipserb/2017/10/19/irs-announces-2018-tax-brackets-standard-deduction-amounts-and-more/#2e27d06b273b>

¹⁰ <https://www.irs.gov/credits-deductions/individuals/lifetime-learning-credit>

¹¹ <https://www.irs.gov/credits-deductions/individuals/lifetime-learning-credit>

¹² <https://www.forbes.com/sites/kellyphillipsrb/2017/10/19/irs-announces-2018-tax-brackets-standard-deduction-amounts-and-more/#2e27d06b273b>

¹³ <https://www.irs.gov/credits-deductions/individuals/premium-tax-credit-affordable-care-act>

¹⁴ <https://www.healthcare.gov/glossary/premium-tax-credit/>

¹⁵ <https://www.healthcare.gov/glossary/federal-poverty-level-FPL/>

¹⁶ <https://www.irs.gov/affordable-care-act/individuals-and-families/the-premium-tax-credit-the-basics-0>

¹⁷ <https://turbotax.intuit.com/tax-tips/fun-facts/the-10-most-overlooked-tax-deductions/L2WjmvZAH>

¹⁸ <https://turbotax.intuit.com/tax-tips/fun-facts/the-10-most-overlooked-tax-deductions/L2WjmvZAH>

¹⁹ <https://www.irs.gov/credits-deductions/individuals/sales-tax-deduction-calculator>

²⁰ <http://money.cnn.com/2017/12/20/pf/salt-deductions-new-tax-plan/index.html>

²¹ <https://www.irs.gov/taxtopics/tc511>

²² <https://www.irs.gov/taxtopics/tc456>

²³ <https://www.irs.gov/taxtopics/tc701>