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Happy Holidays! We hope you are having a great 2018 and are looking forward to 2019. Unlike recent years, in which the tax rules have been fairly stable, 2018 brings extensive changes as a result of the tax bill passed by Congress in December, 2017. These changes will affect how your 2018 taxes will be calculated. Here's a quick recap of the new rules, followed by some basic tax tip ideas. We really do have a tax return that is "postcard" size for 2018 but it appears the government didn't make it easier- as this postcard has six supporting pages of schedules.

REMINDER TO CLIENTS WHO MAKE ESTIMATED TAX PAYMENTS

The last estimated tax payment for 2018 is due January 15, 2019

If you make estimated tax payments you might want to consider enrolling in EFTPS (Electronic Federal Tax Payment System). You can either call in or go on your computer and allow the IRS to withdraw funds from a financial institution that you have set up. You can enroll in the program online at www.eftps.gov or by calling 800-555-4477.

Tax organizers are only being mailed upon request. All of our organizers and engagement letters can be accessed under the Organizers Tax on our website at www.whbcpa.com. If you prefer to have an organizer mailed, please call our office or email donna@whbcpa.com with your request.

In order to protect our clients' privacy we no longer give out results of your tax return on the telephone or email. We will file your return electronically once we have your signed Form 8879. It is important that you review your return for accuracy before signing Form 8879. Both taxpayers must sign Form 8879 if a joint tax return is being filed. We can e-file your return and if you owe the IRS the payment is not due until April 15, 2019.

Please schedule your appointment as soon as possible. There is a conference room upstairs so if navigating the stairs is a challenge, let us know when you make your appointment and we will meet upstairs. We will not schedule any tax appointments after March 29, 2019. We must have your information by the end of March in order to have sufficient time to prepare an accurate tax return. Tax information received too closely to the filing deadline will likely have to be extended.

EXTENSIONS TO FILE - There are no additional costs to file an extension as long as any income tax that may be due is sent to the IRS with the extension. Late payment penalty and interest will be assessed by the IRS from the due date until the day the tax is paid. The IRS will send a bill for penalty and interest. It is your responsibility to determine the amount to be sent with your extension and also to make your current year quarterly estimated tax payments even if your tax return is extended. WHB will send the extensions to the IRS. The 2018 individual tax return due date is April 15, 2019.

S corporation and partnership tax returns are due on March 15, 2019 and if extended, the due date is September 16, 2019. The penalty for late filing is $200 per month times the number of partners or shareholders for the number of months the return was filed late not to exceed twelve months. The penalty increases to $205 in 2019.

2018 TAX RATES - A centerpiece of last year's legislation is the reduction in income tax rates. While the new law keeps the same number of tax brackets, many tax rates are two to three percentage points lower than prior years. The top rate is reduced from 39.6% to 37% and kicks in at a higher taxable income. The 2018 rates are 10%,12%, 22%, 24%, 32%, 35% and 37%. However, high-income filers are also subject to a 3.8% net investment income tax. Investment income includes interest, dividends, annuities, royalties, rents, capital gains on stock sales and other gross income from passive activities. The tax applies for those taxpayers in the 37% tax bracket.

The new federal withholding tables were designed to lower your total tax bill for the year by giving you a bigger paycheck throughout the year. Unfortunately, they were not designed to give you a refund at year end, and for many of you your refund will be smaller or you may even owe. One recommendation for 2019 is that married individuals fill out a W-4 reflecting “single and zero” withholding.

KEY TAX FACTS & INFO for 2018 and 2019

- **PERSONAL EXEMPTION AMOUNT & STANDARD DEDUCTION –** Two of the most significant changes are the repeal of the personal exemption deductions and the increase in the standard deduction amounts. The 2018 standard deduction for married joint filers is $24,000 and $24,400 in 2019; Head of household is $18,000 in 2018 and $18,350 in 2019 and single is $12,000 in 2018 and $12,200 in 2019. Because the standard deduction is generally claimed only when it exceeds available itemized deductions, the increase in the standard deduction will not benefit you if you itemize deductions. The repeal of the personal exemption deductions, by contrast, will affect you whether you itemize or not.

- **CHILD/DEPENDENT TAX CREDIT –** To compensate for the repealed exemptions for dependents, the new law increased the child tax credit from $1,000 in 2017 to $2,000 in 2018. The maximum age for a child eligible for the credit remains at 16. In addition, a $500 nonrefundable tax credit for dependent children over age 16 and all other dependents is available beginning in 2018. The modified adjusted gross income threshold where the credit phases out has been increased to $400,000 for joint filers and $200,000 for all others.

- **ITEMIZED DEDUCTIONS -** The ability to itemize deductions has been dramatically decreased because the new law provides a much larger standard deduction. You are allowed to deduct the greater of the standard deduction or your itemized deductions. However, we still need to accumulate the information on your medical, tax, mortgage interest, charity and other deductions in order to apply the new rules and to complete state tax returns, if required.

  Whether it makes sense to take an itemized deduction for your charitable contributions depends on whether your total itemized deductions exceed your standard deduction. It is worth noting that the new law increases the maximum contribution percentage from 50% to 60% for cash contributions to public charities. In the current tax era of the higher standard deduction, a tax “bunching” strategy is absolutely mandatory. The “bunching strategy” recognizes that the best tax deductions are obtained by putting deductions in one year rather than spreading them amongst several years. For example, in years where your charitable contributions are very low, hold off until the next year to catch up, then also pay the full amount of the next year’s contributions in the “catch up” year in order to double your chances of itemizing. Similarly, few Americans receive medical deductions anymore, but if you incur a large expense in one year try to have as many dollars in the same year which may allow you to itemize. Thus, taxpayers can itemize deductions in the year deductible expenses are bunched and take the standard deduction in other years.

  Work related expenses as an employee are no longer deductible which includes any lodging, meals and/or vehicle expenses. If you are an employee that incurs a substantial amount of work related expenses, you need to discuss the use of an accountable plan with your employer.

  Other expenditures that are no longer deductible include home equity interest unless loan proceeds are used to buy, build or substantially improve a main home or second home, union dues, uniforms, tax preparation fees, safe deposit box rentals, IRA maintenance fees, investment advisory fees, hobby expenses (but income is still taxable) and continuing education expense. Moving expenses are no longer deductible unless the taxpayer is a member of the Armed Forces on active duty and meets other criteria. Employer payment or reimbursement for moving expenses will be taxable. Alimony will not be deductible nor will it be taxable to the recipient for divorces executed after December 31, 2018. The new tax law also eliminated business deductions for entertainment. A business may still generally deduct 50% of the food and beverage expenses associated with operating their trade or business. Employers who pay for Christmas parties, company barbeques and other employee benefit provided meals are limited to a 50% deduction starting in 2018.

- **STANDARD MILEAGE RATE -** The standard mileage rate for business miles is 54.5 cents in 2018. Charity rate is 14 cents per mile and medical rate is 18 cents per mile for 2018. The IRS has not yet released 2019 rates.

  Vehicle expense deductions are generally calculated using one of two methods: the standard mileage rate or the actual expense method. Since the IRS tends to focus on vehicle expenses in an audit and disallow them if they are not properly substantiated, you should ensure that you are keeping records of your business mileage in a notebook, diary, trip sheets, calendar or electronic app. Records are considered adequate to substantiate the element of a vehicle expense only if they are prepared or maintained in such a manner each recording of an element of the expense is made at or near the time the mileage is incurred.

- **CAPITAL GAINS TAX -** The tax rate for both long-term capital gains and qualified dividends is generally no higher than 15 percent for most taxpayers. A zero capital gain rate applies where income is not above $38,600/$39,375 (single), $77,200/$78,750 (joint), or $51,700/$52,750 (head of household) in 2018 and 2019, respectively. However, a 20 percent tax rate on net capital gain does apply to the extent that ordinary taxable income is over $425,800 for single status and $479,000 for married filing joint filers. The overall rate for higher-income taxpayers is 23.8% including the 3.8% surtax on investment-type income and gains.

  Gifting appreciated stock can reap a large benefit by donating appreciated assets, such as stock, to a charity. Generally, the higher the appreciated value of an asset, the bigger the potential value of the tax benefit. It entitles you to a charitable donation at the fair market value and also avoids capital gains if you sold the stock.

  A new Qualified Opportunity Zone (QCZ) program to encourage investment in low-income communities provides temporary deferral of gross income for capital gains reinvested in a qualified opportunity fund and the permanent exclusion of capital gains from the sale or exchange of an investment in a qualified opportunity fund.

  Like-kind exchanges (1031) are only allowed for real estate starting in 2018. All trade-ins (vehicles & equipment) will be treated as a sale on your tax return. This means your tax preparer must have all paperwork on new purchases showing the trade-in amounts.

- **BONUS DEPRECIATION/SECTION 179 DEDUCTION -** For 2018 through 2021 businesses can elect to deduct 100% of the cost of **new** and used tangible property purchased and placed in service. Section 179 is extended permanently which allows businesses to expense a maximum of $1,000,000 for qualifying property with a phase-out level of $2 million subject to net income limitations in 2018 increasing to $1,020,000 with a phase-out threshold of $2,550,000 in 2019. The definition of property that qualifies for the Section 179 deduction has been expanded to include personal property purchased for rentals and any of the following improvements to **nonresidential real property**: roofs, heating, ventilation, air-conditioning property, fire protection, alarm systems, security systems and qualified improvement property.

  Depreciation in 2018 on "luxury automobiles" (GVW of less than 6000 lbs) has been increased to $8,000 bonus plus $10,000 for a total depreciation deduction of $18,000 in the first year, $16,000 for the second year, $9,600 for the third year, and $5,760 for the fourth year and later years. These limits do not apply to vehicles with a GVW of more than 6000 pounds.

- **CREDITS FOR HIGHER EDUCATION EXPENSES -** You **may** be able to take the American Opportunity Tax Credit or the Lifetime Learning Credit for tuition and fees paid for post-secondary education, graduate school or courses to gain or improve job skills. The American Opportunity Tax credit also includes books as qualified expenses. The income level limitations for the education credits did not increase with the new tax law.

- **INDIVIDUAL RETIREMENT ACCOUNTS -** You **may** be able to contribute $5,500 to a Traditional or Roth IRA. The traditional IRA is deducted on the tax return, whereas, the Roth IRA is not a deduction for tax purposes. It is important to note contributions for all types of IRAs combined is limited to $5,500/$6,500 depending on your age and the contribution must be made by April 15, 2019. The traditional and Roth contribution limit is increased to $6,000/$7,000 for 2019. Contributions cannot be made to your traditional IRA for the year in which you reach age 70 1/2 or any later year.

  It is important that you tell your tax preparer if you have contributed to an IRA account, Roth or Traditional. Not everyone qualifies for an IRA contribution and there is a 6% excise tax and 10% penalty on excess contributions for IRAs, both Traditional and Roth. The excise tax applies each year until the over contribution is withdrawn. Your accountant needs to track your Roth contributions in case you withdraw monies from this account before turning age 59 ½ as there may be earnings on the account that may be taxable.

  Annual withdrawals from traditional retirement accounts are required after age 70 1/2, and the penalty for skipping a required minimum distribution is 50 percent of the amount that should have been withdrawn. However, if you are in the fortunate position of not needing the distribution for living expenses and are charitably inclined, you can avoid income tax on your required withdrawal by donating your money directly to a qualifying charity. You must utilize the direct IRA to charity transfer tool to make the charitable contribution. This simple trick can save you hundreds of dollars in income tax.

  One of the single greatest tax "loophole" which few average people use to its limit is the ability to defer earned dollars Into a retirement plan if your employer has one. Employers offer a variety of different retirement plans such as a 401(k), 403(b), 457, Thrift Savings Plan, SEP-IRA, or Simple plan. If your employer does not offer a retirement plan be sure and contribute the maximum allowed to an individual retirement account – IRA.

- **NET OPERATING LOSSES –** Net operating losses in 2018 are limited to an 80% of taxable limit with an unlimited carry-forward period. There are no two-year carrybacks except for farmers. Losses arising before 2018 will continue to carry forward and expire twenty years after the loss year, but may be used at a 100% dollar for dollar amount.

- **HEALTH SAVINGS ACCOUNT / HEALTH FLEX PLAN -** An HSA is a tax-exempt custodial account (similar to an IRA account) in which you can set aside tax-exempt dollars exclusively for medical expenses. The plan requires a high deductible health insurance plan as defined by the IRS. To qualify you must be self-employed or an employee of an employer who maintains a qualified High Deductible Health Plan. Neither income nor withdrawals used to pay medical costs are taxed, but other distributions are taxed and penalized 20%, except for payouts after age 65 or because of death or disability. Contributions are limited to $3,450 for single coverage in 2018 and $3,500 in 2019. Contributions are limited to $6,900 for family coverage for 2018 and 2019. There is an additional $1,000 catch-up contribution for persons age 55. Contributions must be made for HSA accounts by April 15, 2019.

  If your employer has a health flex plan available – use it. The dollar limitation for employee salary reductions for contributions to health flexible spending arrangement is $2,650 for 2018 and $2,700 for 2019.

- **GIFT & ESTATE TAX -** A common question each year involves gifting. A gift of money is not deductible on your tax return and the recipient does not report gifts as income. The annual gift exclusion for 2018 and 2019 is $15,000 per person and $30,000 for joint gifts by husband and wife. Be sure and include all birthday and holidays gifts when figuring out how much was given to the recipient. Gifts of a direct payment to providers for medical and education expenses do not count toward the annual Gift Tax limit. The 2018 and 2019 estate and gift exemption for estates is $11,180,000 and $11,400,000, respectively.

- **AFFORDABLE CARE ACT – T**he Affordable Care Act (ACA) has required most Americans to have health insurance. People who do not comply will be required to pay a tax “penalty” unless they qualify for an exemption. The amount depends on several factors, including income and family size. The penalty still applies for 2018 tax returns. The penalty is $695 per adult and $347.50 per child with a maximum of $2,085 per family, or 2.5% of the household income, whichever is greater. For calendar year 2019, the penalty for failure to maintain minimum essential coverage is zero.

  Each taxpayer who had health insurance coverage will receive a Form 1095 (A, B or C) from the government, insurance company or employer. If you have received one of these forms please bring to your appointment. Don’t wait to schedule your tax appointment even if you have not received this form.

- **QUALIFIED BUSINESS INCOME – QBI DEDUCTION –** This new deduction is a game changer for small business. In its simplest terms, the deduction is 20% of the lesser of qualified business income or taxable income. If taxable income exceeds certain thresholds additional tests apply such as W-2 wages paid by the business; the type of business; and the business’ investment in tangible, depreciable property. The QBI deduction applies to trade or business income of taxpayers. This deduction is the attempt to offer lower taxes to small businesses that are not treated as a C corporation that has a flat 21% tax rate.

  If a taxpayer’s taxable income is less than $315,000 for a married filing joint return, or less than $157,500 for other filing status, the deduction is simply 20% of the lesser of taxable income or qualified business income. Trade or business income includes sole proprietors, partnerships/LLCs and S corporations.

  A taxpayer engaged in a “specified service trade or business” and whose taxable income exceeds the fully phased in threshold amount of $415,000 (joint filer) or $207,500 (all others) are not allowed a QBI deduction. These thresholds will increase in 2019. A specified business is a business involving the performance of services in the fields of, health, law, consulting, accounting, performing arts, actuarial services, athletics, financial services or brokerage services.

  Like all areas of tax law, simplicity was not a concern when this deduction was decided on. This deduction while somewhat complicated and complex in certain tax situations will certainly decrease the federal income tax liability for many taxpayers.

- **SOCIAL SECURITY –** Social security tax is paid on earned income with a maximum earnings base of $128,400 in 2018 and increases to $132,900 in 2019. The medicare portion of social security taxes (1.45%/2.9%) has an unlimited income threshold. Working retirees receiving social security benefits (younger than their normal retirement age) can earn $17,040 in 2018 and $17,640 in 2019 before having to repay the SSA. Make more than that in earnings and you lose $1 in annual benefits for every $2 that you are above the threshold. Social security benefits will increase by 2.8% cost-of-living adjustment in 2019.

- **MEDICARE MONTHLY PREMIUM-PART B –** The monthly premium paid in 2018 is based on the income reported on your 2016 tax return. Your 2019 monthly premium is based on the income reported on your 2017 tax return. Medicare Part B lowest monthly premium in 2018 is $134.00 increasing to $428.60 for income levels for single taxpayers with income greater than $214,000 and $428,000 for joint income. The monthly Medicare premium-Part B is set for $135.50 for 2019.

- **IDENTITY THEFT GROWING EPIDEMIC -** The number of fraudulently filed tax returns using stolen social security numbers continues to be a huge problem. We do everything we can to protect our clients' privacy and we urge you to take precautions as well.

  Beware of bogus emails and telephone calls. **The IRS does not send unsolicited emails nor do they call you about your taxes.**

  Taxpayers with Identity Protection Personal Identification Numbers (IP PINs) need to be sure to bring in the letter from the IRS. A new IP PIN will be issued each year and without it your return will experience processing delays.

Depending on your projected income for 2018, it may make sense to accelerate income into 2018 if you expect 2019 income to be significantly higher because of increased income or substantially decreased deductions. Options for accelerating income include long-term stock sales (keeping in mind the 3.8% investment tax), converting traditional IRA to Roth IRA and increasing IRA distributions. If it looks like you may have a significant decrease in income in 2019, either from a reduction in income or an increase in deductions, it may make sense to defer income into 2019 or later years.

WHB celebrated 30 years in business in 2018 – we would like to say a big thank you to all of you. It certainly doesn't seem possible that 30 years has passed. But here's to more years – CHEERS!!!

Dixie & Craig

Wilson Hanson & Blom

'Twas the Night Before Tax Day,
When all through the WHB office,
We're working hard to minimize losses.

Our clients were nestled,
All snug in their beds, while visions
Of refunds danced in their heads

Each return was handled
with the utmost of care,
In hopes, the IRS will never be there.

As the returns were e-filed,
We cheered, as they flew out of sight,
"Happy Tax Day to All
& to All a good night!"

Merry Christmas!!!