RKKM
CERTIFIED PUBLIC ACCOUNTANTS

December 2018

To our Clients and Friends:

Year-end 2018 sees the end of the first year of the Tax Cuts and Jobs Act (TCJA), the most significant tax legislation in the United States in more than 30 years. While one of the claimed benefits of tax reform was the simplification of filing and the lowering of income tax rates, there are still many steps that individuals and businesses can take that can lower their tax bills. Planning during the final weeks and months of this year involves much more, both in terms of traditional year-end strategies and strategies developed in response to developments that have taken place since last year. Items for individuals to consider:

Data gathering: Year-end planning should start with data collection and a review of prior year returns. This includes information on losses or other carryovers, estimated tax installments and items that were unusual. Conversations regarding next year should include discussions of any plans for significant purchases or dispositions, as well as any possible life events.

Income tax rates: One of the most significant factors in tax planning for individuals is their tax bracket. The most direct control taxpayers have over their tax bracket rests in their ability to control the timing of income and deductible expenses. For example, taxpayers who expect to be in a lower tax bracket in 2019 should consider deferring income to 2019 and accelerating deductions into 2018. While tax brackets seem as though they will be relatively stable for the next few years, individual circumstances could mean a shift in brackets from year to year.

Investments: Taxpayers holding investments, whether in the form of securities, real estate, collectibles or other assets, often have an opportunity to reduce their overall tax bill by some strategic buying and selling toward the end of the year, as well as, exchanging appreciated assets for like-kind property in order to defer gains. Balancing tax considerations with other factors is part of the challenge in dealing with investments, including: the ordinary income tax rates, the net investment income tax rate, the capital gain rates and the alternative minimum tax (AMT).

Income caps on benefits: Monitoring adjusted gross income (AGI) at year-end can also pay dividends in qualifying for a number of tax benefits. Often tax savings can be realized by lowering income in one year at the expense of realizing a bit more in another year.

Life events: The biggest variables for many taxpayers impacting their year-end tax planning surrounds life events such as marriage, divorce, birth or adoption of a child, a new job or the loss of a job, aging dependents and retirement. These life events may, for instance, result in a change in filing status that will affect tax liability. The possibility of significant changes and/or significant or unusual items of income or loss should also be part of a year-end tax strategy. Additionally, taxpayers need to take a look into the future and predict, if possible, any events that could trigger significant income, losses or deductions.

2018 tax law changes: Nearly all of the provisions of TCJA came into effect during 2018. There are many new tax laws that individuals should be aware of:

- **Alimony:** One very significant change that comes into effect January 1, 2019, is the treatment of alimony. Beginning with divorces and separation agreements entered into <u>after</u> December 31, 2018, alimony or separate maintenance payments are no longer deductible by the payor, nor includible in the income of the payee. This change does not affect divorce or separation agreements entered into before 2019, nor those altered after 2018 where the changed method of taxation is not expressly stated to apply.
- **Medical expenses:** TCJA lowered the floor for claiming deductions for medical expenses to 7.5 percent of AGI for all taxpayers, not just those aged 65 or higher, in 2017 and 2018 only.
- **State and local taxes:** TCJA limits the deduction for state and local taxes to $10,000 per year.
- **Increased standard deduction:** One of the most broadly impactful provisions of TCJA was the near doubling of the standard deduction for all taxpayers. For 2018, the standard deduction amounts are $24,000 for joint filers, $18,000 for heads of households, and $12,000 for all other individual filers. This increased amount makes it less likely that it is more advantageous for individuals to itemize deductions.
- **Miscellaneous itemized deductions:** TCJA eliminated miscellaneous itemized deductions for individuals. This includes deductions for unreimbursed employee expenses.

There are still actions that can be taken with regard to all of these new rules, many of which can still be completed before the end of the year.

For businesses, you should consider the many opportunities that might be lost if year-end tax planning is not explored. A business may want to consider several general strategies, such as use of traditional timing techniques for delaying income recognition and accelerating deductions. A business should also consider customized strategies tailored to its particular situations. The last few months of the year provide an important "last chance" to change the final course of your businesses tax year before it closes for good. Among the reasons why year-end tax planning toward the end of 2018 may be particularly fruitful are the following:

Business credits and deductions: Many business-related tax credits and deductions that periodically expired were permanently extended in 2015. Others were extended for both 2016 and 2017, and are not available for the 2018 filing season unless extender legislation is enacted. A few were extended for a five-year period. Some others were modified and extended by TCJA. Taking inventory of what deductions and credits your business has been using and whether they remain available or will be removed in the near future can significantly impact your bottom line. Many of the provisions now periodically extended relate to energy-related activities, or specific industries, but it is important to make sure that any credits are considered in light of their availability.

Depreciation and expensing: TCJA made some significant changes to encourage business to expand and invest in new property. First-year depreciation allowances on certain business property, or bonus depreciation, has fluctuated over the last few years, but TCJA provides for 100 percent bonus depreciation for property placed in service before 2023. Additionally, the limitation on expensing certain depreciable assets has been increased to $1 million, with a $2.5 million investment limitation. While 2018 is not necessarily the last time these benefits will be available, there has been no better time than 2018 to take advantage of them

Qualified business income deduction: Beginning in 2018, business owners can deduct up to 20 percent of their qualified business income (QBI) from sole proprietorships, partnerships, trusts and S corporations. This is one of the centerpieces of TCJA, and broadly applies to many taxpayers. The IRS has released comprehensive guidance on the deduction, which provides a great deal of clarification on the requirements of the deduction. This is a completely new deduction, with new documentation requirements, which may require a year-end review of records.

Cash method of accounting: Another provision arising from TCJA was a more permissive adoption of the cash method of accounting. Beginning in 2018, corporations with gross receipts up to $25 million can use the method, which is up from $1 million in prior years. Many of the traditional end-of-year planning techniques relating to timing, such as income deferral or income acceleration, are made easier where the cash method of accounting is used.

Family Leave Credit: TCJA also created a new credit for employers making family leave payments to employees. The credit is only available to employers who have a written policy in place for the payment and credit. The IRS has issued guidance allowing the credit to be claimed for all of 2018 by employers who have a written policy in place before the end of 2018. Employers who make these payments, and want to claim the credit still have time to create the policy.

Employee benefits: TCJA made a large number of changes on the individual side relating to benefits that could impact employers. Employees can no longer claim miscellaneous itemized deductions, cannot generally exclude moving expense reimbursements and the deduction for business meals and entertainment was also impacted. Employers should review their internal policies to determine if they need to be changed to reflect the changes.

Affordable Care Act: Despite Congressional attempts to repeal the Affordable Care Act (ACA), the basic structure of the ACA for businesses, both large and small, generally remains intact. If an employer is an applicable large employer (ALE) based on the previous year's employee head-count, employer shared responsibility provisions and employer information reporting provisions are triggered. Small businesses, however, are not unaffected by the ACA and should take the ACA into account in year-end planning. Some incentives in the ACA could help maximize tax savings for small businesses. Planning now, both to qualify for 2018 incentives and to meet 2019 compliance requirements, is advisable.

Overall, clarity is a new concept for federal taxes, as several years' worth of promises of impending tax reform finally resulted in the Tax Cuts and Jobs Act (TCJA). The act made several high-profile changes to the tax code, notably reducing tax rates for businesses and individuals, but also created new tax benefits and made several other benefits even friendlier. For more in-depth information on specific aspects of TCJA, visit our website at www.rkkm.com/TCJA.

Timing rules apply to all: Timing, and the skilled use of timing rules to accelerate and defer certain income or deductions, is the linchpin of year-end tax planning. For example, timing year-end bonuses or year-end tax payments, or timing sales of investment properties to maximize capital gains benefits should be considered. So, too, sometimes fairly sophisticated "like-kind exchange," "installment sale" or "placed in service" rules for business or investment properties come into play.

In other situations, however, implementing more basic concepts is just as useful. For example, taxpayers can write a check or can charge an item by credit card and treat these actions as payments. It often does not matter for tax purposes when the recipient receives a check mailed by the payor, when a bank honors the check or when the taxpayer pays the credit card bill, as long as the payment is done or delivered "in due course."

Enclosed is our Quick Reference Chart that provides the most commonly requested rates, figures and limits for 2018 and 2019. We thank you for allowing us to be of service to you. Please give us a call if you have any questions about how year-end tax planning might help you save taxes.

Very truly yours,

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Quick Reference Chart

As of 12/17/18

	2018	2019
Mileage rate - business travel	54.5₵	58₵
Mileage rate - medical or moving	18₵	20₵
Mileage rate - charitable	14₵	14₵
401(k), 403(b) or 457 retirement plan deferral limit	$18,500	$19,000
Catch up contribution (age 50 or older)	$6,000	$6,000
Defined contribution plan total contribution limit	$55,000	$56,000
SIMPLE IRA deferral limit	$12,500	$13,000
Catch up contribution (age 50 or older)	$3,000	$3,000
Traditional and ROTH IRA contribution limit	$5,500	$6,000
Catch up contribution (age 50 or older)	$1,000	$1,000
Earned income limits for Social Security recipients:		
If you will not reach full retirement age by year end	$17,040	$17,640
During year of full retirement, prior to full retirement age	$45,360	$46,920
After full retirement age (66 for those born 1943-1954)	No limit	No limit
Standard deduction:		
Single or married filing separate	$12,000	$12,200
Married filing joint	$24,000	$24,400
Head of household	$18,000	$18,350
Maximum earned income credit (EIC)	$6,444	$6,557
Flexible spending arrangement (FSA) contribution limit	$2,650	$2,700
Health savings account (HSA) contribution limits:		
Self-only coverage	$3,450	$3,500
Family coverage	$6,900	$7,000
Catch up contributions (age 55 or older)	$1,000	$1,000
Annual gift tax exclusion	$15,000	$15,000
Code Section 179 expense limitation	$1,000,000	$1,020,000
Code Section 179 investment limitation	$2,500,000	$2,550,000
Social Security (OASDI) wage base	$128,400	$132,900
Foreign earned income exclusion	$104,100	$105,900

4598 Dressler Rd. NW | Canton, OH 44718 | 330.493.9200 | www.rkkm.com
315 South Chapel Street | Louisville, OH 44641 | 330.875.1200