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Hello!

Many of our clients took advantage of the opportunity to meet with us this summer and fall. This letter is designed to enhance the information we discussed and to give you some guidance needed for understanding how the big new tax law changes will personally affect you; to dispel some myths that are floating around; and to provide some basic ideas for tax planning.

**2018 Tax Changes for Individuals**
Many seem to think that the new "postcard" return will make income tax preparation easier! Not true. The recurring theme in all of our continuing education classes this year has been the 20% increase in time we can expect to properly complete your return. Here are some of the major changes that have occurred.

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 those of you that did not heed our warnings to change your withholding, your refund will be very small (if any) because you already received it in bits and pieces through larger paychecks throughout the year. One of our simple recommendations for 2019 is that all married individuals fill out a W-4 reflecting "single and zero" withholding.

The ability to itemize deductions has been dramatically decreased because the new law provides a much, much larger standard deduction. (You are allowed to deduct the greater of the two). 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 your state tax returns. It may be, due to the quite low state standard deduction, that claiming the smaller itemized deduction at the Federal level may release more deductions at the state level easing the overall tax burden.

A major change has occurred on home equity lines and 2$^{nd}$ mortgages, most of which are now not deductible. In order to get your largest deduction, we will need to know much more information on these amounts than in the past such as amounts borrowed and use. We will be asking more questions about your mortgage history to determine the correct deductible amount.

Employee work related business expenses are no longer deductible on the Federal return, but we may still need the information for your state return, and if you incur a lot of these types of expenses, you need to discuss the use of an accountable plan with your employer.

Most home-related energy efficiency credits are now expired, but an incredible 30% Federal credit still exists for solar, wind and geothermal costs; and a $7,500 Federal credit for buying a fully electric car still applies through the end of 2018.

If you are retired, over age 70 ½, and have an IRA you may want to consider utilizing the direct IRA to charity transfer tool to make charitable contributions. This simple tool can save you hundreds of dollars in income tax.

With over 50% of working Americans now covered by health savings insurance policies, it is of absolute importance that you start a health savings account, even with $50, and discuss some excellent tax-savings ideas with us for these tax-beneficial plans. And yes, you were still required to maintain health insurance for every member of your family for 2018 or face a potential penalty.

Finally, in order to prepare your return this year **we are required** to obtain all of your W-2's, 1099's from retirement, interest, dividends and brokers, Forms 1095 for health insurance, bank Forms 1098 and any other official IRS documents.

**2018 and Future Tax Planning Ideas**

1. Every year we are told "I pay too much in taxes" or "I want some of the tax loopholes that rich people get". We can answer both statements with one answer. Rich people get no more tax deductions or "loopholes" than anyone else, they just take advantage of what is there to keep their taxes at a low legal level. The single greatest tax "loophole" that they use, which few average people use to its limit is the ability to defer nearly $20,000 into a 401-K if your employer has one. If your employer has a 401-K and you are not putting the maximum deferral in it, there is no reason to even think about other tax planning ideas.

2. In the current tax era of greatly increased requirements to itemize deductions, 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 for say, the deductible on surgery, then try to do all of your other medical items in the same year, such as dental and vision exams, check-ups, etc.

3. Check into your employer's handbook to see what employer provided fringe benefits are available. Taxpayer's are often surprised at the available benefits, or at our explanation of what some benefits really mean. We offer special "tax planning" sessions to go through the handbooks and your paycheck to see what is available and what your options may be, via appointment.

**<u>Security Tips for Taxpayers</u>**

1. If it seems you have received an email from the IRS or other related agency you can report this to phishing@irs.gov.
2. If you think your identity has been compromised you can complete Form 14039 with IRS and attach copies of relevant documents. They will issue you an IP PIN to be used when filing your returns so the IRS knows the return is from you. Please provide us with any IP PIN you may be issued. These PIN numbers change annually.
3. You may also file a report with the Federal Trade Commission at www.ftccomplaintassistant.gov or 877-438-4338.
4. Contact banks and other financial institutions particularly for under-used accounts.
5. Do not give your personal information to someone over the phone if you did not initiate the call.

**<u>2019 Inflation Adjusted Amounts</u>**

IRS has issued the inflation adjusted amounts for 2019.Some of note are:

- Standard Deduction increase to $24,400 for married couples, $12,200 for single and $18,350 for head of household
- Additional standard deduction for over 65 $1,300. For unmarried taxpayers increases to $1,650.
- Flexible Spending Account salary reductions increase to $2,700.
- Annual Gifting has not changed – this level will be $15,000 for 2019.
- 401(k) (and similar plans) contribution limit will rise to $19,000 plus the over 50 catch up of $6,000.
- IRA contribution limit will be $6,000 plus the over 50 catch up of $1,000.

We are happy to meet with you throughout the year for tax planning, retirement and similar income tax related issues, and sincerely appreciate your continued business each year.

Thank you,

*Marion*

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