2018 YEAR-END TAX PLANNING CHECKLIST

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As we approach the final weeks of 2018, there is still time to minimize your 2018 tax liability and get a jump start on your 2019 tax planning. As you may already know, 2018 saw one of the biggest overhauls to the tax code in decades, making tax planning an ever-more important tool for your financial health. This article highlights several potential tax-saving opportunities for you to consider.

Executive Summary

In this article, we will discuss the following year-end tax planning strategies:

- Benefits of accelerating income into 2018 or deferring income into 2019
- Certain tax-saving opportunities for taxpayers with children
- Disappearing itemized deductions and a higher standard deduction
- Benefit of bunching itemized deductions from year to year
- Making gifts sheltered under the annual gift tax exclusion before year-end
- Minimizing non-corporate pass-through business income with the qualified business income deduction
- Benefits of switching to the cash method of accounting
- Generous asset-expensing policies brought on by the tax reform

2018 Tax Planning Opportunities — Individuals

The following section highlights some tax planning opportunities for individual taxpayers.

☐ With 2018 drawing to a close and with the majority of the tax reform changes taking effect in 2018, if you have not sufficiently planned for your 2018 tax year, you may benefit from deferring income into 2019. This is true for individuals that expect to be in the same or a higher tax bracket in 2018 than in 2019 and/or expect to have higher income in 2018 than in 2019. Some ways to defer income this close to year-end include:

- **Installment Sales** - If you expect to sell property before the end of 2018, and it makes economic sense, consider selling the property and reporting the gain under the installment method.
- **Delay Billing** - This is true for tax-payer utilizing the cash method of accounting.
- **Interest and Dividends** - Consider buying short-term bonds or certificates that will not mature until next year. Unless you have constructive receipt of dividends before year-end, they will not be taxed to you in 2018.
- **Year-end Bonuses** - Consider arranging with your employer to defer, until early 2019, a 2018 year-end bonus.

☐ On the other hand, if you expect to be in a higher tax bracket in 2019 than you were in 2018, accelerating income into 2018 may be beneficial to you. Some ways to accelerate income this close to year-end include:

- **Issue Bills and Pursue Collection** - This is true for taxpayers utilizing the cash method of accounting.
- **Interest and Dividends** - If you are not in the highest capital gains bracket for 2018, but you expect to be in 2019, and you have control over when dividends are paid on an investment that pays qualified dividends, you may want to consider authorizing such dividends prior to year-end.
- **Year-end Bonuses** - If you receive a year-end bonus that is paid out in the following year, consider asking that the bonus be paid out before year-end.

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2018 Tax Planning Opportunities — Individuals (Continued)

Certain tax-saving opportunities exist for taxpayers with children:

- **Child Tax Credit** - A tax credit of $2,000 per qualifying child under the age of 17 is available in 2018. The credit is phased out at a rate of $50 for each $1,000 (or fraction of $1,000) of modified AGI exceeding the following amounts: $400,000 for married filing jointly, and $200,000 for all other taxpayers. As much as $1,400 (adjusted for inflation) is refundable. A $500 nonrefundable credit for dependents other than qualifying children also is available.
- **Education Credits** - The American Opportunity Tax Credit is available for qualified tuition and fees paid on behalf of a student (i.e., the taxpayer, the taxpayer's spouse, or a dependent) who is enrolled on at least a half-time basis. The maximum credit is $2,500. The credit is available for the first four years of the student's post-secondary education. The credit is phased out at modified AGI levels between $160,000 and $180,000 for joint filers, and between $80,000 and $90,000 for other taxpayers. Forty percent of the credit is refundable, which means that a taxpayer can receive up to $1,000 even if no taxes are owed. The Lifetime Learning credit maximum in 2018 is $2,000 (20% of qualified tuition and fees up to $10,000). A student need not be enrolled on at least a half-time basis so long as he or she is taking post-secondary classes to acquire or improve job skills. As with the American Opportunity Tax Credit, eligible students include the taxpayer, the taxpayer's spouse, or a dependent. For 2018, the Lifetime Learning credit begins to phase out at modified AGI levels of $57,000 for single taxpayers and $114,000 for joint filers.

Starting in 2018, many taxpayers who claimed itemized deductions in past years will no longer be able to do so. The basic standard deduction has been increased (to $24,000 for joint filers, $12,000 for singles, $18,000 for heads of household, and $12,000 for marrieds filing separately), and many itemized deductions have been cut back or abolished. No more than $10,000 of state and local taxes may be deducted; miscellaneous itemized deductions (e.g., investment advisory and tax preparation fees) and unreimbursed employee expenses are no longer deductible; and personal casualty and theft losses are deductible only if they're attributable to a federally declared disaster and only to the extent the $100 per casualty and 10% of AGI limits are met. You can still itemize medical expenses to the extent they exceed 7.5% of your adjusted gross income, state and local taxes up to $10,000, your charitable contributions, plus interest deductions on a restricted amount of qualifying residence debt, but payments of those items won't save taxes if they don't cumulatively exceed the new, higher standard deduction.

- To maximize your itemized deductions consider applying a "bunching strategy" to pull or push discretionary medical expenses and charitable contributions into the year where they will be maximized. For example, if a taxpayer knows he or she will be able to itemize deductions this year but not next year, the taxpayer may be able to make two years' worth of charitable contributions this year, instead of spreading out donations over 2018 and 2019.
- Consider using a credit card to pay deductible expenses before the end of the year. Doing so will increase your deductions for that year even if you don't pay your credit card bill until after the end of the year.
- If you have significantly high income in a given year, consider establishing a donor advised fund. This fund will allow you to take a charitable donation deduction in the year you contribute to your fund.
- If you expect to owe state and local income taxes when you file your return next year and you will be itemizing in 2018, consider asking your employer to increase withholding of state and local taxes (or pay estimated tax payments of state and local taxes) before year-end to pull the deduction of those taxes into 2018. Keep in mind, however, that state and local tax deductions are limited to $10,000 per year, so this strategy is not a good one if to the extent it causes your 2018 state and local tax payments to exceed $10,000.

2018 Tax Planning Opportunities — Individuals (Continued)

- [ ] How children are taxed on their income has changed. Taxpayers will no longer include their children's income on their return. Children will need to file separate returns. Unearned income such as interest will be taxed at trust and estate rates and earned income such as wages will be taxed at ordinary income tax rates.

- [ ] Take required minimum distributions (RMDs) from your IRA or 401(k) plan (or other employer-sponsored retirement plan). RMDs from IRAs must begin by April 1 of the year following the year you reach age 70-½. Failure to take a required withdrawal can result in a penalty of 50% of the amount of the RMD not withdrawn. Thus, if you turn age 70-½ in 2018, you can delay the first required distribution to 2019, but if you do, you will have to take a double distribution in 2019—the amount required for 2018 plus the amount required for 2019. Think twice before delaying 2018 distributions to 2019, as bunching income into 2019 might push you into a higher tax bracket or have a detrimental impact on various income tax deductions that are reduced at higher income levels. However, it could be beneficial to take both distributions in 2019 if you will be in a substantially lower bracket that year.

- [ ] Make gifts sheltered by the annual gift tax exclusion before the end of the year and thereby, save gift and estate taxes. The exclusion applies to gifts of up to $15,000 made in 2018 to each of an unlimited number of individuals. You can't carry over unused exclusions from one year to the next. Such transfers may save family income taxes where income-earning property is given to family members in lower income tax brackets who are not subject to the kiddie tax.

2018 Tax Planning Opportunities — Business Owners

- [ ] Starting in 2018, taxpayers other than corporations may be entitled to a deduction of up to 20% of their qualified business income (QBI). For 2018, if taxable income exceeds $315,000 for a married couple filing jointly, or $157,500 for all other taxpayers, the deduction may be limited based on whether the taxpayer is engaged in a service-type trade or business (such as law, accounting, health, or consulting), the amount of W-2 wages paid by the trade or business, and/or the unadjusted basis of qualified property (such as machinery and equipment) held by the trade or business. The limitations are phased in for joint filers with taxable income between $315,000 and $415,000 and for all other taxpayers with taxable income between $157,500 and $207,500. This new piece of tax legislation is probably the most anticipated section of the tax reform and does have a lot of nuances. Please consult your tax advisor on whether and how you can benefit from QBI.

- [ ] More "small businesses" are able to use the cash (as opposed to accrual) method of accounting in 2018 and later years than were allowed to do so in earlier years. To qualify as a "small business" a taxpayer must, among other things, satisfy a gross receipts test. Effective for tax years beginning after December 31, 2017, the gross-receipts test is satisfied if, during a three-year testing period, average annual gross receipts don't exceed $25 million (the dollar amount used to be $5 million). Cash method taxpayers may find it a lot easier to shift income as a tax planning strategy.

- [ ] Consider making expenditures that qualify for the liberalized business property expensing option. For tax years beginning in 2018, the expensing limit is $1,000,000, and the investment ceiling limit is $2,500,000. Expensing is generally available for most depreciable property (other than buildings), and off-the-shelf computer software. For property placed in service in tax years beginning after December 31, 2017, expensing also is available for qualified improvement property (generally, any interior improvement to a building's interior, but not for enlargement of a building, elevators or escalators, or the internal structural framework), for roofs, and for HVAC, fire protection, alarm, and security systems. The generous dollar ceilings that apply this year mean that many small - and medium-sized businesses that make timely purchases will be able to currently deduct most, if not all, their outlays for machinery and equipment. What's more, the expensing deduc-

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2018 Tax Planning Opportunities — Business Owners (Continued)

tion is not prorated for the time that the asset is in sevice during the year. The fact that the expensing deduction may be claimed in full (if you are otherwise eligible to take it) regarding of how long the property is held during the year can be a potent tool for year-end tax planning. Thus, property acquired and placed in service in the last days of 2018, rather than at the beginning of 2019, can result in a full expensing deduction for 2018.

☐ Businesses can also claim a 100% bonus first year depreciation deduction for machinery and equipment—bought used (with some exceptions) or new—if purchased and placed in service this year. The 100% write-off is permitted without any proration based on the length of time that an asset is in service during the tax year. As a result, the 100% bonus first-year write-off is available even if qualifying assets are in service for only a few days in 2018.

☐ Like in previous years, businesses may be able to take advantage of the de minimis safe harbor election to expense the costs of lower-cost assets and materials and supplies, assuming the costs don't have to be capitalized under the Code Sec. 263A uniform capitalization (UNICAP) rules. To qualify for the election, the cost of a unit of property can't exceed $5,000 if the taxpayer has an applicable financial statement (AFS; e.g., a certified audited financial statement along with an independent CPA's report). If there's no AFS, the cost of a unit of property can't exceed $2,500. Where the UNICAP rules aren't an issue, consider purchasing such qualifying items before the end of 2018.

☐ **Excess Business Loss -** Beginning in 2018 and until 2025, taxpayer's deduction of business loses cannot exceed the excess business loss (EBL) limit. An EBL exists if the aggregate losses and deductions from a taxpayer's trades or businesses exceed the sum of:

- Aggregate gross receipts from such trades or business
- $500,000 for married filing joint taxpayers or $250,000 for other taxpayers

☐ The excess loss that is disallowed will be carried forward to future years as part of your suspended net operating loss.

Business Interest Deduction Limit - Beginning in 2018, the business interest expense deduction is limited to 30% of that company's adjusted taxable income. The amount of interest expense not allowed as a deduction for any taxable year is treated as a business expense paid or accrued in the following taxable year.

These are just some year-end tax planning strategies that you may benefit from, but it is important to keep in mind that tax planning is very much an individual tool.

If you have any questions about year-end tax planning, or if you need assistance, please contact us.

Judy Mason, CPA, CVA, has over 20 years of tax, accounting, business consulting, and compliance experience, serving closely-held and start-up businesses, entrepreneurial and family-owned companies, their owners, and families. Her expertise is in federal, state, local, and employment taxation, guiding clients through the complexities of conducting business in a dynamic tax environment. She has successfully defended a broad range of federal income, state income, and sales tax audits for her clients.

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