TAX PLANNING LETTER

Year-End 2018

James P. Gibbs, CPA

Dear clients and friends,

While the final chapter of 2018 may be coming to a close, the epic tale of how taxpayers will fare from major tax law changes is only just beginning.

You can be the hero in your own 2018 tax return story, despite hundreds of pages of tax code edits and additions. But you have to act fast while there's still time to revise your plan.

To help you learn more about major changes that will most likely impact your tax situation, please review this Tax Planning Letter. Read about the dramatic standard deduction increase and the personal exemption elimination, as well as other changes that may alter your tax bill. Then find out how you can prepare — especially if the tax deductions, credits and other strategies you've benefited from in the past are no longer options for you.

Don't hesitate to schedule an appointment to discuss any last-minute tax moves. Otherwise, let's connect when you're ready to have your 2018 tax return prepared.

As always, feel free to share this newsletter with friends and associates who are interested in minimizing their taxes for 2018 and beyond.

James P. Gibbs, CPA

30 North Raymond Avenue, Suite 412 • Pasadena, CA 91103
Tel (626) 795-9821 • Fax (626) 795-9816
jim@jamesgibbscpa.com

Don't ignore these money-saving tax ideas

The end of another year is fast approaching, meaning it's time to take action to reduce taxes on your personal tax return. Consider these tax-savvy strategies:

Bunch your deductions

In light of the recent standard deduction increase, bunching deductions on your personal income tax return may be especially helpful for 2018 if you'd like to itemize.

Bunching means concentrating multiple years of itemized deductions into the year offering the greatest tax benefit. You then claim the standard deduction in alternate years. Bunching is most effective when combined with other tax planning, such as reducing your adjusted gross income (AGI).

For instance, charitable contributions can often be effectively bunched. In general, as long as you have written acknowledgment from a qualified charity, you can deduct donations in the year you write the check or put the charge on your credit card.

Keep in mind that donating appreciated assets before Dec. 31 may be more tax advantageous than cash contributions. When you contribute property you have owned for more than a year, you can usually deduct the full fair market value.

Other itemized deductions you can control in order to maximize tax savings include medical expenses, as well as real estate interest payments and state income taxes.

Monitor your AGI

Another tax-planning strategy is to reduce your AGI. One way to do this on your personal tax return is to maximize above-the-line deductions. These are expenses you can claim even if you don't itemize.

Review above-the-line tax ideas to lower your taxable income. They include retirement plan contributions and withdrawals, student loan interest deductions, teacher classroom expenses and health savings account contributions.

Consider shifting income

Since individuals are taxed on a cash basis, any income you can shift into next year or deductible payments you can make this calendar year can help reduce your taxable income. So delaying receipt of bonuses, or prepaying some eligible deductions before the end of the year are workable ways to help manage your taxable income.

You can also reduce some of your tax by shifting income among family members. You could consider making gifts of income-producing property to family members in lower tax brackets. Up to $2,100 of unearned income is usually taxed at a rate lower than yours. Though you can't take a tax deduction for gifts, up to $15,000 can be given to a person each year ($30,000 when you're married) and avoid any gift tax complications.

To discuss the tax-cutting options best for your individual circumstances, call to schedule a year-end tax review. ❑

3 ways to cut business taxes

Looking to minimize your business taxes? Consider these three options:

1 Manage asset policies. Review your asset management policies. Depreciation is probably the first thing you think of when you consider tax benefits for business assets.

You may have heard that bonus

depreciation increases from 50 percent to 100 percent for qualified property acquired and placed in service after Sept. 27, 2017. And the Section 179 expensing deduction increases to $1,000,000 from $500,000 this year.

While accelerated depreciation tax rules affect your current year deduction, remember that changes to these rules have no impact on the total amount you can deduct over the life of an asset.

However, you do still have tax-planning opportunities. Consider examining the tax benefits of leasing business equipment instead of buying. Depending on the type of lease, you may be able to deduct payments in full as you make them. What's the downside? Generally you'll forfeit depreciation deductions. Run an analysis to determine which option will work best for you.

2 Set up a retirement plan. Contributions to a self-employed retirement plan reduce above-the-line AGI. Depending on the plan you choose, you can set up the paperwork before year-end and make contributions by the due date of your 2018 tax return.

For instance, say you're the sole owner of your business. Establishing a 401(k) gives you the opportunity to set aside as much as $18,500 in salary deferral (plus an extra $6,000 if you're older than 50). In addition, you can put up to 20 percent (not to exceed $55,000) of your business profit into your plan.

3 Consider hiring family. If you decide to hire family members, pay a reasonable — and deductible — salary for work actually performed. You may be able to provide tax-deductible fringe benefits, as well as save on payroll tax expenses. ❑

5 reasons your 2018 taxes may cause you drama

Here are highlights of five major tax changes you shouldn't ignore because they're bound to make a difference to your tax situation:

1. Larger standard deduction adds uncertainty. The standard deduction increased to $12,000 for individuals and $24,000 for married couples (up from $6,350 and $12,700, respectively). While some will find themselves moving from itemizing to using the standard deduction, many will not. This is especially true if you own a home, have high medical bills, or donate to charities. Single taxpayers will also find themselves less likely to use the standard deduction, as new deduction limits tend to favor them over married couples.

2. Limits added and deductions removed. A cap of $10,000 is placed on state tax deductions — this includes property taxes, state income taxes and sales taxes. And home equity loan interest can now only be deducted if the funds are used to buy, build or significantly improve your home. Plus, all miscellaneous deductions have been eliminated, including non-reimbursed job expenses, union dues and investment-related expenses.

3. Proposed smaller Form 1040 requires six new schedules. In an attempt to deliver a postcard-sized Form 1040, the IRS has proposed a smaller Form 1040. Lines are combined or shifted to one of six new schedules. With the creation of the newly proposed form, the 1040EZ and 1040A would be eliminated. If published, the 1040 may be more complicated than ever.

4. Personal exemptions eliminated and the Child Tax Credit expanded. Personal exemptions of $4,050 for you, your spouse and each dependent are gone. The Child Tax Credit, however, has been doubled to $2,000 per child. The income limits are drastically higher for the credit phaseout: $200,000 for single and $400,000 for married (up from $75,000 and $110,000, respectively). As a result, most people with children under age 17 will be entitled to the Child Tax Credit.

5. Big changes for small businesses. The top C corporation tax rate has been lowered to 21 percent (down from 35 percent). There is a new tax benefit for sole proprietors, partnerships and S corporations in the form of a 20-percent qualified business income deduction.

In addition, bonus depreciation and Section 179 expensing have been expanded. Unfortunately, the domestic production activities deduction (DPAD) is no longer available this year.

With all of the tax changes, this year's filing season is setting up to be an adventurous one. Call if you have questions. ❑

Does a donor-advised fund fit your giving strategy?

New higher standard deductions and limits on itemized deductions are creating uncertainty about the tax benefit of charitable donations. On the flip side, a charitable deduction is still one of the most controllable deductions available to you in terms of timing and dollar amount.

So how can you donate to your favorite charities while still taking a tax deduction? Consider donor-advised funds.

Donor-advised funds explained

Think of a donor-advised fund as a charitable savings account, except that withdrawals (grants) can only be given to eligible charities. It is an account controlled by a third-party sponsoring organization for the sole purpose of donating your funds to charity. While the sponsoring organization has control over the funds once they are contributed by you, you still decide what charity the funds eventually go to and when they'll be donated.

Donor-advised funds are administered by sponsoring organizations such as financial service companies, community organizations and academic institutions. The good news is most financial institution donor-advised funds will allow you to keep the funds in the account for as long as you wish and make grants to any eligible charity out of it.

Benefits of a donor-advised fund

▶ Immediate tax deduction

The full charitable tax deduction is available in the year the funds are contributed to the account, even if you haven't decided which charities will receive a distribution. Even better, annual deductible donations are now available for up to 60 percent of your adjusted gross income (AGI) for cash donations (formerly 50 percent) and 30 percent of your AGI for security donations.

▶ Avoid capital gains tax

When donating appreciated long-term securities (held longer than one year), you are able to deduct the full market value of the asset as an itemized deduction without the burden of paying capital gains tax. So consider donating investments that you perceive to be close to their highest value before making a cash donation to take advantage of this benefit.

▶ Risk-free from market fluctuations

Once the funds are contributed, your tax deduction is immune from personal market risk. If the contributed securities rise in value, the gains realized are associated with the fund and stay tax-free for you. On the other hand, if the contributed securities decrease in value after contribution, your initial donation amount does not change.

▶ Donations are private

Sponsoring organizations are required to disclose the charities that receive donations, but are not required to report who is making the donation. Most funds will also allow you to make donations anonymously, if that is important to you.

▶ Perfect for a bunching strategy

Donor-advised funds provide an opportunity to place multiple years of donations into the fund for later distribution. This bunching technique can help you reach the itemization threshold in a chosen year. Once your charitable contributions are in the donor-advised fund, you can advise on the timing of distributions so you can continue to support your chosen charities over multiple years.

If a donor-advised fund is something you would like to explore, now is the time to start researching and planning. ❑

For details or assistance, call Ronald S. Cheifer, CPA • (626) 795-9821