Schwartz & Schwartz, P.C.

CPAs Specializing in Healthcare Professionals

Checklist To Cut Your 2018 Taxes

It's not too late to cut your 2018 tax bill. Prior to Dec. 31st:

- **Increase your 401(k) and 403(b) contributions** if you haven't been contributing at the maximum rate all year. If you're self-employed, consider setting up a Solo 401(k) by 12/31.
- **Take a look at your withholdings** and instruct your employer to withhold additional taxes if you haven't had enough taxes withheld during the year and might get hit with an underpayment penalty.
- **Consider selling your non-retirement investments that have decreased in value** since your capital losses can offset other capital gains realized during the year (including from your mutual funds), and then can be used to offset up to $3,000 of wages and other income.
- **Send in your January 2019 mortgage payment early enough** so it will be processed prior to 12/31/18. By sending in your payment a few weeks early, you can deduct the interest portion of that payment a full year earlier.
- **Clean out your closets and donate your clothing and household items to a charitable organization** since "non-cash" contributions are deductible if you itemize. Don't forget to get a receipt. And make sure to put together a list or photos of the donated items, including each item's condition since only donations of clothing and household items in "good condition or better" qualify for a deduction.
- **For gifts of money**, making your donation by credit card before December 31st allows you to deduct the donation on this year's return, even if you don't pay your credit card bill until 2019. And **you always have the option of donating appreciated investments** to charities. You get to claim your donation based on the value of the assets donated, without paying any capital gains taxes on the appreciation.
- **Consider contributing to a Donor Advised Fund** if you are married and no longer have a substantial mortgage.
- **Pre-pay or pay off your medical bills** if your total medical expenses exceed 7.5% of your income and you itemize.
- **Consider the simplified method home office deduction** if you are self-employed, maintain an area of your house used exclusively and regularly as a home office, but don't maintain accurate records documenting expenses for your house. Claiming the simplified home office method as a tax deduction can lower your self-employment net income by as much as $1,500.

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Review of the 2018 Rules for Itemizing Your Deductions

Medical Expenses
For 2018, and only for 2018, medical expenses are deductible to the extent they exceed 7.5% of your Adjusted Gross income (AGI). Staring 1/1/19, the threshold reverts to 10% of AGI.
Planning Opportunity: Check out IRS Publication 502, Medical and Dental Expenses. If your allowable medical expenses will exceed 7.5% of your AGI this year, then paying your outstanding medical and dental bills prior to 12/31/18 will increase the allowable deduction. Same goes for pre-paying for medical expenses even if the services won't be provided until next year.

Home Mortgage Interest
Big changes with the deductibility of home mortgage interest:

- Interest on a total of up to $1 million of pre-12/14/17 outstanding debt on your primary residence and a second home is fully deductible.
- New mortgages debt (excluding refinancing of pre-12/14/17 mortgages) taken after 12/14/17 limited to $750k for this deduction.
- Interest on home equity debt used to improve the residence securing the debt is still deductible subject to the $1 million and $750k limits above.
- All other home equity loans no longer qualify for the mortgage interest deduction.

Planning Opportunity: Read the IRS' explanation of the new rules for deducting mortgage interest and home equity loan interest and consider refinancing outstanding debt accordingly, but only if the current interest rates permit. You might also consider claiming the home office deduction to write off a portion of your mortgage interest and real estate taxes that are now non-deductible under the new rules.

Charitable Donations
The new rules increased the amount of charitable donations you can make and deduct each year to 60% of your AGI, up from 50% based on the pre-1/1/18 rules.
Planning Opportunity: Consider donating appreciated securities to a charity since you don't pay taxes on the appreciation but can still write off the full value of the securities donated. You might also consider setting up and funding a Donor Advised Fund to frontload the tax deduction on your donations while still allowing you to disburse the contributions to the charities over a number of years.

Miscellaneous Itemized Deductions
Investment management fees, tax prep fees, and unreimbursed employee business expenses are no longer deductible effective 1/1/18.
Planning Opportunity: Consider claiming these expenses if possible against your business income reported on your Schedule C, rental income on the Schedule E, page 1, or partnership income on Schedule E, page 2.

Casualty Losses
Non-business casualty losses are now only deductible if the loss occurs in a Presidentially declared disaster area. Personal casualty losses and theft losses are no longer deducible as of 1/1/18.

Tougher To Itemize in 2018
With a $24k standard deduction and state and local taxes (SALT), including real estate taxes, limited to just $10k annually, married couples without a large mortgage might find themselves struggling to itemize their deductions under the new tax rules. Unmarried individuals can also deduct $10k in SALT taxes but have a standard deduction of just $12k, so will have a much easier time to itemize just by owning a home, having significant medical expenses, or donating a few thousand dollars to charity each year.
Planning Opportunity: Married couples might save some taxes by bunching their deductions every other year.

Phase-out of the Phase-out
Here is one last bit of good news. The new tax rules eliminate the phase-out of itemized deductions starting 1/1/18. Previously, high income taxpayers saw that their itemized deductions began to be phased-out once their income exceeded $313,800 if married or $287,650 if single.

IRS Announces Higher Retirement Plan Limits for 2019

Most working professionals have access to a 401(k) plan or a 403(b) plan at work. Amounts contributed to these plans generally reduce your taxable earnings and always grow tax deferred. You can contribute up to $19,000 into a 401(k) or 403(b) plan through salary deferrals in 2019.

Anyone 50 or older by December 31, 2019 can contribute an extra $6,000 into their 401(k) or 403(b) plan through salary deferrals next year, for a total annual contribution of $25,000. That is an increase of $500 over what was allowed during 2018.

Many smaller employers offer their staff access to SIMPLE/IRAs instead. SIMPLE's work just like 401(k) plans, which means it's up to you to fund the bulk of this retirement savings account through salary deferrals. For 2019, the maximum contribution into your SIMPLE increases to $13,000. Anyone 50 or older by December 31st can sock away an additional $3,000 in 2019, for a total annual contribution of $16,000, up $500 from 2018.

And if you are self-employed, you can contribute up to 20% of your net self-employment income into a SEP IRA. The maximum contribution into your SEP IRA for 2019 increases to $56,000, up $1,000 from 2018.

Re-Set Your 2019 Budget: Most people won't be able to max out these tax-advantaged retirement options unless they get on a budget and put away a set amount of money each month. With 2018 winding down, now's the time to start thinking about resetting your monthly retirement savings goals for 2019.

2019 Maximum Retirement Account Contributions:

Retirement Savings Option	Under the age of 50	50 or older by December 31st
401(k) or 403(b) deferrals	*$19,000 ($1,583/month)*	*$25,000 ($2,083/month)*
SIMPLE IRA deferrals	*$13,000 ($1,083/month)*	*$16,000 ($1,333/month)*
SEP IRA	*$56,000 ($4,667/month)*	*$56,000 ($4,667/month)*
Solo 401(k)	*$56,000 ($4,667/month)*	*$62,000 or ($5,167/month)*
IRA or Roth IRA	*$6,000 ($500/month)*	*$7,000 ($583/month)*

Social Security Max Increase to $132,900 for 2019

Most years, the government bumps up the maximum Social Security taxes that you can pay. For 2019, the maximum wage base jumps to $132,900, an increase of $4,500, or 3.5%, over the max of $128,400 that was in place for 2018.

At a rate of 6.2%, the maximum Social Security taxes that your employer will withhold from your salary is $8,240. This is $279 higher than the 2018 max of $7,961.

How is this increase calculated? According to the Social Security Administration, the annual change is based on the National Wage Index.

Calculating the Self-employment Tax:

If you're self-employed and earn more than $400 in net profit from your business, you're subject to social security and Medicare taxes as well. Known as the "self-employment tax", you'll need to complete a Schedule SE to calculate this tax, and then report the amount due on page 2 of your Form 1040.

The self-employment tax is based on a social security tax rate of 12.4% and a Medicare tax rate of 2.9%. These rates are double those paid by employees, since a self-employed person must pay both the employee's portion and the employer's portion of both taxes. Remember, when you work as an employee, your employer matches the Social Security and Medicare taxes withheld from your pay.

Unlike most other taxes, when dealing with self-employment taxes, the more you earn, the less you pay in taxes. If you earn income as an employee and as an independent contractor, and your combined income exceeds $128,400 in 2018, make sure to complete Section B of the Schedule SE. Otherwise, your tax calculation will be incorrect and you'll end up overpaying your self-employment taxes.

Do You Work For More Than One Employer in 2018 and Earn More Than $128,400?

For 2018, each of your employers withholds social security taxes from the first $128,400 that you earn from them. If you work for more than one employer and your total salary from all sources exceeds that threshold, you'll have excess social security taxes withheld. Make sure to claim a credit for these excess taxes on your 1040 as additional federal taxes paid in.

For Example:
Let's say you work for two employers and earn $100,000 from each employer. Employer #1 withholds $6,200 in social security taxes ($100,000 * 6.2%). Employer #2 also withholds $6,200 in social security taxes – for a total of $12,400 in social security taxes withheld during the year. Since the maximum social security taxes that you should pay through payroll withholdings for 2018 is limited to $7,961, the excess of $4,439 counts as additional federal income taxes paid in by you.

www.ssa.gov

A great place to find out more about your social security taxes and projected benefits is at the Social Security Administration's website located at www.ssa.gov, or learn about what's new for the 2019 Social Security Changes

Buying and Selling Mutual Funds at Year End: Beware of Year End Distributions

With the year-end upon us, many investors see it as the time to rebalance their investment portfolios. However, savvy investors need to be aware of just when the timing is "right" or "wrong" to make that buy or sell trade happen.

Mutual funds are required by law to distribute the income earned within the fund each year to the shareholders of the mutual funds in the form of dividends and capital gain distributions. Typically, the bulk of these distributions occur near year end, late in the month of December. The dividends and interest earned within the mutual fund as well as capital gains from sales must be distributed to the shareholders. At the time of the distribution, the net asset value (NAV) of the fund decreases by the amount of the per share distribution because those assets are no longer held within the fund. The result is taxable income to the shareholder and a reduction in the NAV of the mutual fund.

Thus, the date to be aware of is the ex-dividend date – the first day that buyers of the mutual fund will not receive the dividend being paid out by a mutual fund.

Buyers will want to wait until after the ex-dividend date to buy into a mutual fund. After that date they are buying into the fund at a lower NAV, because of the dividend distribution. If they buy the mutual fund prior to the ex-dividend date, they are buying the fund at the higher NAV, receiving a taxable distribution, and then being left with the mutual fund at the lower NAV. The major dilemma of purchasing before the ex-dividend date is that although the buyer will receive income in the form of a dividend and/or capital gain distribution, he will also have to report the income on his tax return and pay taxes on that distribution. After having been hit with a tax bill on the distribution, the buyer would be left with less money in his wallet than if the mutual fund was simply purchased without the dividend payment.

The opposite is true for sellers. Sellers want to sell their mutual fund shares before the year-end distribution. Selling before the ex-dividend date end will result in the entire gain being subject to lower capital gain tax rates. Waiting until after the ex-dividend date, the seller will receive a taxable distribution. This scenario would result in income from the sale of the mutual fund being taxed at a capital gain, but the dividend distribution portion being taxed at a higher ordinary income tax rate.

Bottom line is as follows – buyers want to purchase shares after the ex-dividend date while sellers should sell shares before the ex-dividend date. Following these rules should help investors to lessen their tax exposure on their mutual fund income.

Time to Take a Good Look at HSAs

Contributing to a Health Savings Account (HSA) is a great investment opportunity that allows for tax-deductible contributions and tax-free withdrawals. Please note that only individuals with a qualifying high-deductible health insurance in place are allowed to contribute to an H.S.A. You can ask your health insurance provider if the plan you have qualifies.

Insurance is set up to protect individuals from a financial catastrophe. Over the years, however, health insurance evolved to more of a system that paid for all of the healthcare costs for individuals and families. I'm guessing that was to encourage people to have their annual physicals and to seek out medical care as soon as possible, since treating an illness early could end up being a lot less expensive than having a person avoid seeing a doctor to save the cost of the visit. Pay a doctor $100 now for a consult and save thousands later on treatments that potentially could have been avoided with some preventative visits.

Due to skyrocketing healthcare costs, a larger portion of the cost of early visits now falls on the individual. Since you are looking for your health insurance to protect you against the catastrophic and not to pay all your small health related bills, that's actually fine.

If you and your family are reasonably healthy, take a look at switching to a qualifying high-deductible health insurance plan and start contributing to a Health Saving Account to receive the following tax breaks:

- Amounts contributed to an HSA are tax-deductible whether your employer contributes or you contribute on your own.
- Amounts invested within the HSA grow tax-deferred.
- Amounts withdrawn to pay your family's healthcare cost are tax-free.
- Any money remaining within the HSA once you turn 65 can supplement your retirement. You will owe income taxes on money distributed. Most likely you will have medical and dental expenses to pay from your HSA that will would be tax-free.

The maximum you contribute to an HSA for 2018 is $6,900 for a family or $3,450 for an individual. Anyone 55 or older by 12/31/18 can add another $1,000 this year.

And as we wrote earlier this spring, HSAs make a great Buy and Hold Proposition. Instead of using money from your HSA to pay routine healthcare bills for your family, pay those bills out of your household account and keep more money in your HSA growing in a tax-deferred envelope that will ultimately be available for tax-free distributions down the road. You can purchase low-cost Vanguard funds through HSA Bank.
family.