TRAVIS H. LONG
CERTIFIED PUBLIC ACCOUNTANT, INC.

2018 Tax Law Changes and Last-Minute Tax Saving Tips

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TRAVIS H. LONG
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Travis H. Long is a Certified Public Accountant licensed by the California Board of Accountancy, and a member of the California Society of Certified Public Accountants. Long opened his firm in January 2011 after working for a number of years in public accounting. His experience includes trust and estate taxation and planning; corporate, partnership, and other multi-level entity taxation and planning; individual assurance; and attest services. His clients include families, partnerships, corporations, nonprofits, trusts, and estates. Travis graduated first in his class from Principia College in Elsah, Illinois, majoring in Business Administration and Mass Comm.

Travis is an active member in his community and church. He recently finished a three-year term as President of the Meals on Wheels of the Monterey Peninsula, and now serves as Treasurer. He teaches Sunday School at First Church of Christ, Scientist, Carmel, where he also fills the role of Treasurer. Travis is a member of the Pacific Grove Rotary Club, and is the President-Elect of that organization. In addition, he serves on the Advisory Board of the Pacific Grove Chamber of Commerce. He and wife, Joy, have two children. Outside of work and community activities, Travis enjoys Golf, Soccer, and music with his son, playing dolls with his four-year-old daughter, and home renovation projects. He can be reached at travis@tlongcpa.com, 706-B Forest Ave., Pacific Grove, CA.

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Tax Cuts and Jobs Act of 2017 (TCJA)

- Signed into Law December 22, 2017
- Largest Tax Law Change in 30 Years
- Requiring IRS to Reprogram 160 systems and create or revise 650 forms, instructions, or publications
- Estimated Cost: $1 trillion over next 10 years
- Most Corporate Elements Permanent
- Most Personal Elements Sunset after 2025
Misinformation and Poor Assumptions

- You no longer have to itemize
- You can’t deduct charitable donations
- ssok cap on state and local taxes will ruin you, except CA may fix that
- You will likely pay more tax

Tax Brackets

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<thead>
<tr>
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<tbody>
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<td>2018</td>
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<td>10%</td>
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<td>12%</td>
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<tr>
<td>37%</td>
<td>Over $1,200,000</td>
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Married Filing Jointly

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<td>32% to $620,000</td>
<td>$1,200,000 to $2,000,000</td>
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<td>35% to $940,000</td>
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Married Filing Separately

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<td>37% to Over $940,000</td>
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Tax Brackets

<table>
<thead>
<tr>
<th>Trusts and Estates</th>
<th>2018 Tax Rates</th>
<th>2017 Tax Rates</th>
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<tr>
<td>10%</td>
<td>0 to $2,550</td>
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<td>37%</td>
<td>Over $12,500</td>
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<tr>
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<td>39.60%</td>
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IRAs

- Recharacterizing Roth conversions no longer allowed
- Indirect Rollovers reminder—one every 365 days, not one every calendar year (not part of TCJA)

Business Deductions

- 100% bonus depreciation on qualified property
- Section 179 deductions increased to $1 million plus inflation
- Domestic Production Activities Deductions repealed
- Business entertainment expenses eliminated
- Cash method of accounting okay now up to $25 million
Capital Gains

- Largely unchanged
- Mostly people in 10% and 12% (prior 10% and 15%) brackets have 0% capital gains tax rate
- 20% rate if in top bracket
- 15% rate for everyone else

Real Estate/NOLs

- 1031 exchanges only allowed on real property now
- Net operating losses carrybacks generally eliminated and carryforwards now indefinite

Alimony/Moving Expenses

- If divorce agreement signed after 12/31/18, alimony is not deductible by the payor and not taxable income to the recipient
- Prior agreements grandfathered in to old rules (the reverse)
- Moving expenses eliminated except for military
Section 199A — New 20% Deduction

- Deduction on qualified business income for itemizers and non-itemizers
- Valid for Schedule C income, S-corporation profits, LLC/partnership/trust and estate pass through income, REITs, and probably real estate income
- N/A for W-2 wages, SS, IRA or pension distributions, investment earnings, etc.

Section 199A — New 20% Deduction

- 20% of lesser of:
  - Domestic qualified business income (QBI)
  - Taxable income less capital gains
- Phaseouts
  - IRS $305,000 - $415,000
  - All others $150,000 - $200,500

Section 199A — New 20% Deduction

- Service businesses — no deduction beyond phaseout
- All other businesses still get deduction beyond phaseout
  - Capped at greater of:
    - $500,000 - $300,000 wages paid by the business or
    - 25% of wages plus 2.5% of unadjusted basis of depreciable property
Section 199A—New 20% Deduction

- Service businesses are health, law, accounting, actuarial sciences, athletics, financial services and brokers, performing artists, consultants, or if reputation or skill of one or more employees or owners is the principal asset.
- Engineers and architects exempted out specifically
- New Guidance—real estate agents and brokers, insurance agents and brokers, news and sportscasters exempt and reputation or skill (defined as use of someone’s image, voice, name, etc. for endorsements or licensing).
- Mixed businesses - De minimis 10% rule

C-Corporations

- Corporate tax rate dropped to flat 21%
- AMT repealed
- Repatriation Tax

Standard Deduction

- Nearly doubled for everyone
  - Single $12,000 = $13,600 over 85
  - MFJ $24,000 = $26,800 each over 85
  - MFJ $12,000 = $13,600 over 65
  - HOH = $18,000 = $19,600 over 65
Itemized Deductions

- Medical Expenses

- 7.5% threshold for 2018
- 10% threshold in 2019 and later
- Consider any elective expenses before year-end

Itemized Deductions

- State and Local Taxes (SALT) limited to $10K

- Includes state income taxes, real property taxes, DMV taxes, SDI
- Rental and investment property taxes still deductible
- Effects less people than you would think – AMT

Itemized Deductions

- Mortgage Interest

- Limited to $750K total debt
  - Grandfathered $1 mil prior to 12/23/17
  - Home Equity Debt $500K Repealed
  - No grandfathering
  - Rental properties unaffected
Itemized Deductions

- Casualty/Theft Losses
- Repealed except for federally declared disaster areas
- Still okay for businesses

Itemized Deductions

- Charitable Donations
- 50% charitable deduction limit increased to 60%
- Reminder about donations
- Under §§170 supposes to have cancelled check or receipt
- Over §4908 must have receipt "no goods or services received" language of state what you received in return
- Over $5,000 appraisal
- Contemporaneous acknowledgement

Itemized Deductions

- 2% Miscellaneous Deductions—Repealed
- Unreimbursed employee business expenses
- Union dues
- Investment advisory fees
- Tax prep fees (not allocated to Sch. C, E, F)
- Safe deposit box fees
- Legal fees for tax advice/protection or collection of income (except certain discrimination lawsuits, claims against the U.S. gov. and certain claims related to Medicare)
- Trust and estate termination deductions (Maybe further guidance)
Itemized Deductions

• 2% Miscellaneous Deductions — Repealed!

• Trusts and Estates
  • Eliminated except for administrative costs that would not have been incurred if the trust or estate did not exist
  • Attorneys' fees for trust or estate return
  • Preparation for final estate return if decedent's fiduciary
  • Income tax preparation for trust or estate
  • Investment advisory fees provided to grantor in trust

• Excess deductions on termination — Match deductions with income — possibly prepay

Personal Exemptions

• Personal and dependent exemptions repealed
Dependent Tax Credits

- Doubled—up to $2,000 per child now ($1,400 refundable)
  - Think Duggars or Gessells
- MFJ—AGI begin phaseout at $4,000 (1200K all others) and $4,000 additional income per exemption to phase out.
- Up to $500 for qualifying relative
  - Gross income must be less than old exemption amount ($4,150 currently and adjusted for inflation) (Congressional drafting error)

Due Diligence Requirements

- Continued efforts to make preparers the police
- $510 preparer penalty for each failure to properly document
  - Earned Income Tax Credit
  - American Opportunity Tax Credit
  - Child Tax Credit
  - Head of Household status (New)

Alternative Minimum Tax (AMT)

- Exemptions increased and phaseouts increased—much less impact now
  - Single Exemption $55,400 increased to $70,300
  - Single Phaseout $123,100 increased to $150,000
  - MFJ Exemption $86,300 increased to $109,400
  - MFJ Phaseout $164,100 increased to $200,000
Health Insurance Mandate

- Individual Shared Responsibility Payment is reduced to $0 as of 1/1/2019
- Effectively repeals the individual mandate to have health insurance

529 Plans

- Elementary and secondary education tuition okay now up to $10k per year per student
- Public, private, or religious schools
- Expected to be defined in a code
- If get refund for dropping a class, etc. can re-contribute within 60 days as principal.
- Dying overnight makes possible loophole currently

Kiddie Tax

- If only earned income ≤ $12,000 gross income to file
- If only unearned income ≤ $2,050 gross income to file
- If both earned and unearned income ≥ $2,050 or earned income plus $550 (up to $12,000 cap)
- Decoupled from parent tax rates
- Net unearned income of a child over $2,050 is taxed at trust and estate rates
- In 2015, 343,000 children paid $1 billion in Kiddie Tax
Estate Inheritance and Gift Tax

- $11.2 million exemption for 2018 per person (inflation adjusted each year)
- Sunsets in 2025—back to $5 million

CA Conformity to All of This

- No.
- See CA adjustments .pdf

Postcard Return

- Campaign Promise
- See .pdf
Postcard “Shaped” Return

New W-4

- Draft issued in June—Sweeping Changes
- Privacy concerns included disclosing all your other sources of income to your employer!
- Required tax law knowledge to fill out
- Completely scrapped new W-4 for 2019 will look almost identical to old W-4
  - Will try again in another year or two.

Paycheck Checkup

- IRS is concerned people will be underwithheld
  - www.irs.gov/individuals/withholding-calculator
  - Impacted People:
    - Taxpayers who lost the majority of their state and property tax deductions;
    - Taxpayers with large miscellaneous itemized deductions subject to the 2% limitation, such as tax preparation, entertainers, investors, etc.
    - Families: Limitation of the personal exemption and change in the dependent and child credits could affect families;
    - Some taxpayers and other individuals with non-wage income should adjust their estimated taxes; and
    - Clients who want a tax refund. Some taxpayers use the tax refund to pay off credit cards or take a vacation.
Last Minute Tax Saving Tips

• **Tried and True**
  - Delay income and accelerate expenses except watch out for loss of new 2018 & 2019 deduction (tax deferral typically)
  - Buy necessary equipment and/or
  - Sell capital gains now or within 2 years
  - Ask to get paid next year
  - Itemized deduction bunching
    - Property taxes and state income taxes up to basis limit
    - Charitable donations
    - Elective Medical in 2018 (before 2018 floor kicks in)

11/23/2018

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Last Minute Tax Saving Tips

• Sell low basis stock—0% capital gains rate if taxable income (including capital gains) is:
  - Below $77,200 MFJ
  - Below $54,200 HOH
  - Below $3,600 all others
  - CA does not conform

11/23/2018

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Last Minute Tax Saving Tips

• Roth IRA conversions Before Year-End 12/31/2018
  - With new higher standard deduction $13,700 MFJ, $26,600 and if low income, you may be able to convert some IRA money tax free each year for federal purposes, and avoid paying the tax later
  - Social Security is often not taxable depending on other income, so may not have much taxable AGI income
  - 2019: $650 (excluding SS), tax-free interest up to $50,000 benefits is 0% taxable
  - 2018: $650 (excluding SS), tax-free interest up to $200,000 benefits is 0% taxable
  - Sees a $5,000 (excluding SS), tax-free interest up to $100,000 benefits is 0% taxable
  - 2019: $5,000 (excluding SS), tax-free interest up to $100,000 benefits is 0% taxable
  - Sees a $5,000 (excluding SS), tax-free interest up to $100,000 benefits is 0% taxable
  - Markets have dipped—more bang for your buck with conversions

11/23/2018
Last Minute Tax Saving Tips

- Increase contributions to retirement plans
  - $28,500 up to $55,000 limit for SIMPLE
  - 20% of net income for SEP IRA
- Contribute to an IRA
  - $5,500 to $11,000
- Contribute to HSA
  - $6,500 for self, $13,000 for family
- Max OOP $6,950 self, $13,900 family

Last Minute Tax Saving Tips

- Solar Credit (buy with loan and get tax credits today)
  - 30% if construction begins prior to Jan. 1, 2020
  - 26% in 2020
  - 22.5% in 2021
  - 0% after 2021

Last Minute Tax Saving Tips

- Required Minimum Distributions Review
  - Age 70½ taken by 4/1 of following year, but two in one year if deferred first one to following year
  - Can take RMD from one account for all IRAs. RMDs for 401(k), 403(b), etc. must be taken separately from each account.
  - No RMD required for Roth, but yes for Roth 401k
  - No RMD req. from employer 401k if still working for that employer
  - Spouses RMDs must be calculated and taken separately
Last Minute Tax Saving Tips

- RMD Strategy: IRA-to-charity transfer
  - Can transfer directly from IRA to charity and it will be excluded from AGI and qualify as your RMD
  - Must be 70½ to do this
  - Even if don’t itemize, this will work and save you tax.
  - Monterey Public Library is happy to assist you with this!

- Combatting 2½% misc. deductions less
  - Revise your employment agreement to cover your unreimbursed employee business expenses and maybe take lower salary instead.
  - 2½% misc. deductions are repealed.
  - Consider Statutory Employee treatment if qualified, then deductions go on Schedule C.
    - Employee sales people that sell wholesale goods for resale or supplies to be used by customers.
    - Some workers making things or providing services for an employer.
    - Employer paid life insurance.
    - Agents/commission drivers that deliver food and laundry.

Last Minute Tax Saving Tips

- Section 199A – 20% Deduction Planning
  - If low in that year range
    - Consider becoming an independent contractor to get deduction (lower paid taxes)
    - If small, consider becoming LLC or sole proprietor to increase deduction
    - Consider installing equipment for energy savings or alternative energy generation, not depreciable deduction, reduce AGI method of depreciation, having lower tax consequences, and have higher income and greater 20% deduction.
    - Consider both long-term options instead of traditional to get greater 20% deduction.
    - Consider naming the enterprises (or dissociate if one spouse is high AME earner and other has business before the divorce).
This workshop will be available to view on-demand by December 1, 2018. Go to: https://www.monterey.org/library/Events/Financial-Awareness-Workshops
AND
This workshop will air on Comcast Channels 24 and 25. Check the Program Schedule at https://www.ampmedia.org/channels2/.