Monterey Public Library Endowment Committee
and Friends of the Library present

2018 Tax Law Changes & Last Minute Tax Saving Tips

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Inga Waite, Library Director
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625 Pacific Street, Monterey, CA 93940
www.monterey.org/library, 831.646.3933
California’s first public library established in 1849
2018 Tax Law Changes and Last-Minute Tax Saving Tips

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Travis is an active member in his community and church. He recently finished a two-year term as President of the Board for 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 as an Ambassador for the Pacific Grove Chamber of Commerce. He and wife, Joy, have two children. Outside of work and community activities, Travis enjoys Cub Scout activities with his son, playing dolls with his four-year-old daughter, and home renovation projects. He can be reached at travis@tlongcpa.com, (831) 333-1041 or http://www.tlongcpa.com. 706-B Forest Ave., Pacific Grove, CA
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 140 systems and create or revise 450 forms, instructions, or publications
- Estimated Cost - $2 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
- $10K cap on state and local taxes will ruin you, except CA may fix that
- You will likely pay more tax
## Tax Brackets

<table>
<thead>
<tr>
<th></th>
<th>Single</th>
<th>Married Filing Jointly</th>
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<tbody>
<tr>
<td></td>
<td>Standard Deduction</td>
<td>Standard Deduction</td>
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<tr>
<td></td>
<td>$12,000</td>
<td>$6,350</td>
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<tr>
<td>10%</td>
<td>0 to $9,525</td>
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<tr>
<td>12%</td>
<td>$9,525 to $38,700</td>
<td>15%</td>
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<td>22%</td>
<td>$38,700 to $82,500</td>
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<td>24%</td>
<td>$82,500 to $157,500</td>
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<td>32%</td>
<td>$157,500 to $200,000</td>
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<td>37%</td>
<td>Over $500,000</td>
<td>39.60%</td>
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## Tax Brackets

<table>
<thead>
<tr>
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<td>39.60%</td>
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<table>
<thead>
<tr>
<th><strong>Married Filing Separately</strong></th>
<th><strong>$12,000</strong></th>
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<td>10%</td>
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<td>10%</td>
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<tr>
<td>12%</td>
<td>$9,525 to $38,700</td>
<td>15% $9,325 to $37,950</td>
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<td>22%</td>
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<td>25% $37,950 to $76,550</td>
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<tr>
<td>35%</td>
<td>$200,000 to $500,000</td>
<td>35% $208,350 to $235,350</td>
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<tr>
<td>37%</td>
<td>Over $500,000</td>
<td>39.60% Over $235,350</td>
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## Tax Brackets

### Trusts and Estates

<table>
<thead>
<tr>
<th>2018 Tax Rates</th>
<th>2017 Tax Rates</th>
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<tbody>
<tr>
<td>10%</td>
<td>15%</td>
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<tr>
<td>0 to $2,550</td>
<td>0 to $2,550</td>
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<td>25%</td>
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<td>$2,550 to $9,150</td>
<td>$2,550 to $6,000</td>
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<tr>
<td>35%</td>
<td>28%</td>
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<tr>
<td>$9,150 to $12,500</td>
<td>$6,000 to $9,150</td>
</tr>
<tr>
<td>37%</td>
<td>33%</td>
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<tr>
<td>Over $12,500</td>
<td>$9,150 to $12,500</td>
</tr>
<tr>
<td>N/A</td>
<td>39.60%</td>
</tr>
<tr>
<td>N/A</td>
<td>Over $12,500</td>
</tr>
</tbody>
</table>
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
  • MFJ $315,000-$415,000
  • All others $157,500 - $207,500
Section 199A – New 20% Deduction

• Service businesses – no deduction beyond phaseout
• All other businesses still get deduction beyond phaseout
  • Capped at greater of:
    • 50% of W-2 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 + $1,600 over 65
• MFJ $24,000 + $1,300 each over 65
• MFS - $12,000 + $1,600 over 65
• HOH - $18,000 + $1,600 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 12/15/17

• Home Equity Debt $100K 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 $250 supposed to have cancelled check or receipt
  - Over $250 must have receipt “no goods or services received” language or 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/production or collection of income (except certain discrimination suits, claims against the US 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.
    • Tax preparation fees for trust or estate return (not final 1040 of decedent), fiduciary fees, attorney fees to settle trust/estate still okay
    • Investment advisory fees probably no longer deductible
  • Excess deductions on termination – match deductions with income - possibly prepay
Itemized Deductions

• Itemized Deduction Limitation – Repealed!
Personal exemptions

- Personal and dependent exemptions repealed
Dependent Tax Credits

• Doubled - up to $2,000 per child now ($1,400 refundable)
  • Think Duggars or Gosselins

• MFJ – AGI begin phaseout at $400K ($200K all others) and $40K 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 $500,000
  - MFJ Exemption $86,200 increased to $109,400
  - MFJ Phaseout $164,100 increased to $1,000,000
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 K-12
  • If get refund for dropping a class, etc. can recontribute within 60 days as principal.
    • Drafting oversight creates possible loophole currently
Kiddie Tax

- If only earned income - $12,000 gross income to file
- If only unearned income - $1,050 gross income to file
- If both earned and unearned income – larger of $1,050 or earned income plus $350 (up to $12,000 cap)
- Decoupled from parent tax rates
  - Net unearned income of a child over $1,050 is taxed at trust and estates 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 with be underwithheld
  • www.irs.gov/individuals/irs-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 salespeople, entertainers, investors, etc.
  • Families: Elimination of the personal exemption and change in the dependent and child credits could affect families;
  • Independent contractors and other individuals with nonwage 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
  • Defer income and accelerate expenses except watch out for loss of new 20% 199A deduction (tax deferral typically)
    • Buy necessary equipment and vehicles
    • Defer capital gains sales or split over two years
    • Ask to get paid next year
  • Itemized deduction bunching
    • Property taxes and state income taxes up to $10K limit
    • Charitable deductions
    • Elective Medical in 2018 (before 10% floor kicks in)
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 $51,700 HOH
  • Below $38,600 all others

• CA does not conform
Last Minute Tax Saving Tips

• Roth IRA conversions Before Year-End 12/31/2018
  • With new higher standard deductions $12,000-$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 0%-85% taxable depending on other income, so may not have much taxable SS income.
    • Single – If (AGI Excluding SS + tax free interest + ½ SS benefits ) is below $25K 0% is taxable. If between $25K-$34K up to 50% taxable. If over $34K up to 85% is taxable.
    • Married Filing Jointly – If (AGI Excluding SS + tax free interest + ½ SS benefits ) is below $32K 0% is taxable. If between $32K-$44K up to 50% taxable. If over $44K up to 85% is taxable.
  • Markets have dipped – more bang for your buck with conversions
Last Minute Tax Saving Tips

• Increase contributions to retirement plans
  • $18,500 up to $24,500 limit for 401k, 403b, 457
  • $12,500 up to $15,500 limit for SIMPLE
  • 25% (effectively 20%) of net income for SEP IRA
• Contribute to an IRA
  • $5,500 to $6,500
• Contribute to HSA
  • $3,500 for self plan, $7,000 for family plan
  • Min. Deductible $1,350 self, $2,700 family
  • Max OOP $6,750 self, $13,500 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% in 2021
  - 0% After 2021
Last Minute Tax Saving Tips

- Required Minimum Distributions Review
  - Age 70 ½ take by 12/31 or by 4/1 of following year, but have to take two in one year if defer first one to following year
  - Can take RMD from one account for all IRAs. RMDs for 401ks, 403bs, 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 70 ½ 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!
Last Minute Tax Saving Tips

• Combatting 2% misc. deductions loss

• Revise your employment agreement to cover your unreimbursed employee business expenses and maybe take lower salary instead.
  • 2% Misc. deductions are repealed

• Consider Statutory Employee treatment if qualify, then deductions go on Schedule C
  • Employee sales people that sell wholesale goods for resale or supplies to be used by customer.
  • Home workers making things or providing services for an employer
  • Full-time life insurance
  • Agent/commission drivers that deliver food and laundry
Last Minute Tax Saving Tips

• **Section 199A – 20% Deduction Planning**
  • **If below phase-out range**
    • If employee, consider becoming independent contractor to get deduction (beware payroll taxes)
    • If S-corp, consider becoming LLC or sole proprietor to increase deduction
    • Consider reducing depreciation expense by electing out of bonus depreciation, not claiming 179 deduction, electing ADS method of depreciation, having lower capitalization policy to have higher income and greater 20% deduction.
    • Consider Roth retirement options instead of traditional to get greater 20% deduction
    • Consider married filing separate (or divorced!) if one spouse is high W-2 earner and other has business below phase-out
Last Minute Tax Saving Tips

• **Section 199A – 20% Deduction Planning**
  • If over phase-out range – service business
    • Consider contributing to retirement contribution to lower taxable income and get 20% deduction
  • If over phase-out range – not a service business
    • Consider moving independent contractors working for you to employees to get W-2 wages
    • Consider hiring your spouse or children to get W-2 wages (sole prop. can’t hire self)
    • Consider converting from sole proprietor to S-corp and pay salary to self (2/7 salary, 5/7 profit is magic spot)
    • Consider getting married if one spouse is over phase-out as single, but would not be if filed jointly
Last Minute Tax Saving Tips

• State Income Tax Charitable Deduction
  • Not gonna work!
  • IRS issued new proposed regs. That would eliminate this possibility
  • Side repercussion: Now California’s College Access Tax Credit is non-deductible
    • Moral – don’t pick up a snake by the tail.
Thank You!

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