SUTE CPAs

TAX ADVICE

ISSUE 1 – WINTER 2018

WELCOME TO OUR 2018 WINTER EDITION!

As a service to our clients, we send this newsletter to keep you updated with the latest tax information.

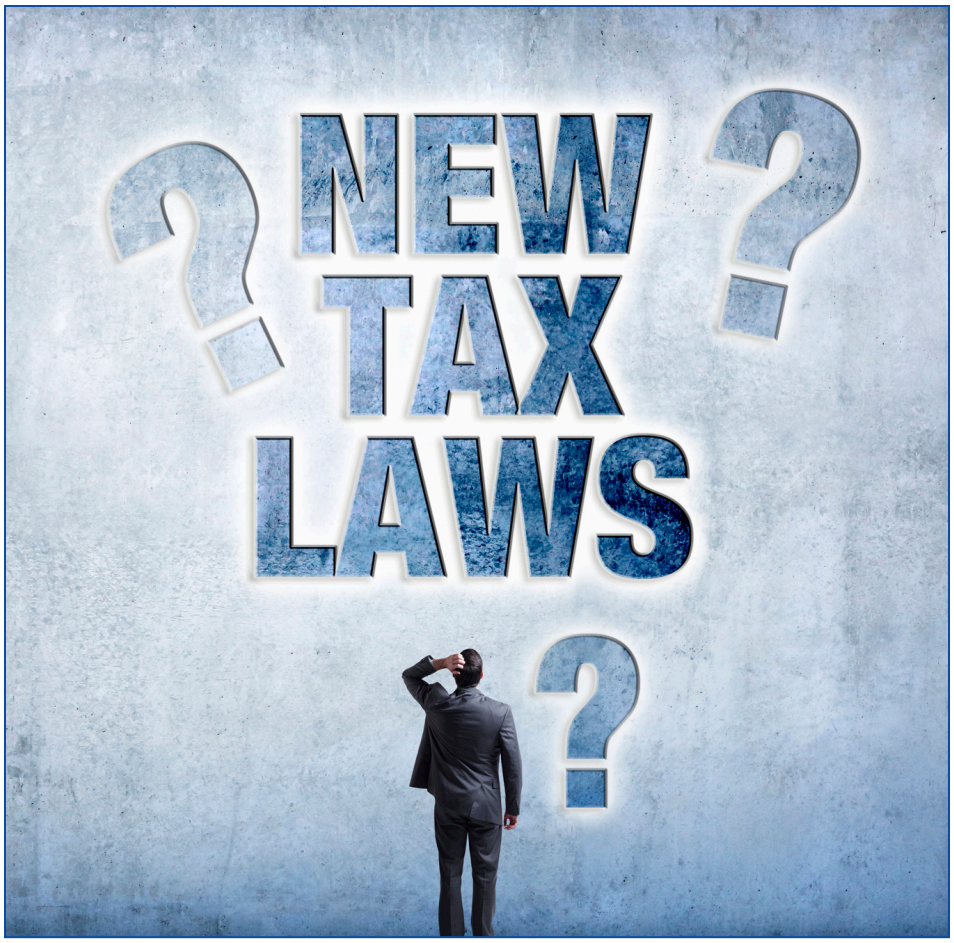
As year-end approaches there are many tax issues to consider. Fortunately, most clients will see a decrease in their taxes because of the new law; however, because payroll withholdings have been adjusted by employers, take-home pay has likely increased meaning tax refunds may not increase as you would hope.

Most individuals with a mortgage balance in excess of $400,000 and modest charitable donations should be able to continue to itemize. The favorable changes to the tax rates, child tax credits, AMT exemptions, phase-outs and 20% pass-through deduction should provide substantial tax reductions to the average taxpayer.

However, generally speaking, taxpayers making $750,000+ may see little change or even anincrease to their tax liabilities as compared to prior years unless their income is generated from a non-service based pass-through entity.

Contact us today and we will help a you make the most of the new tax law.

MAKING SENSE OF THE NEW TAX LAWS



Find out how you're affected and how you can benefit.

THE NEW TAX LAWS
HOW WILL THEY AFFECT YOU?

Now is a good time to look at how the new Tax Cuts and Jobs Act, arguably the largest overhaul of the U.S. tax code since the Ronald Reagan era, will affect your taxes for 2018 and beyond.

INDIVIDUALS

- Reduces tax rates for most taxpayers
- Increases the standard deduction; eliminates personal exemptions
- Reduces or eliminates several itemized deductions
- Caps state/local/property taxes at $10,000
- Reduces mortgage interest deductions (new mortgages only)
- Generally eliminates home equity interest deduction
- Eliminates moving expenses
- Eliminates unreimbursed business expenses (W-2 employees)
- Eliminates miscellaneous 2% itemized deductions such as investment advisory fees
- Expands child tax incentives
- Changes favorably the alternative minimum tax (AMT)
- Allows 529 plans to pay for K-12 tuition
- Establishes new family tax credits
- Doubles estate tax exclusion
- Establishes new 20% business deduction for owners of pass-through entities
- Disallows taxability/deductibility of alimony payments (for new decrees after 2018)
- Establishes opportunity zones for reinvesting real estate profits
- Repeals penalty for failure to buy health insurance (after 2018)

BUSINESSES

- Reduces tax rates
- Establishes new 20% business deduction for owners of pass-through entities
  - Generally applies to manufacturers
  - May include qualified service companies (if income threshold met; i.e., $315k-$400k)
  - Certain restrictions apply
- Enables faster depreciation of "new" and "used" property purchases
- Eliminates entertainment deduction
- Eliminates corporate AMT

Email jerri.steck@sutecpa.com for our comprehensive letter detailing each of these items and many more.

FREQUENTLY ASKED QUESTIONS

WHY DO I OWE?

Do you have investment earnings and/or capital gains? Do you have pass-through/K-1 income? Did you exercise stock options at work? Do you receive supplemental pay from work such as bonuses or commissions? These are all common examples as to why clients owe at tax time.

WILL I STILL BE SUBJECT TO AMT?

Hopefully not! Due to increased exemption amounts and phase-outs, it is estimated that the number of individuals subject to AMT will drop from roughly 5 million down to roughly 200,000.

WHEN DO I PAY PENALTIES AND INTEREST?

Filing an extension extends the due date of your returns but does not extend the time to pay. As such, penalties and interest begin accruing after April 15th. Plan accordingly by making an extension payment at April 15th if feasible.

10 THINGS TO CONSIDER BEFORE YEAR-END

1 Let's not overlook the new 20% deduction for certain qualified income! **Who:** Small business owners. **When: A.** If total income is $157,500 or below ($315,000 or below if filing joint) and the small business is service based. "Services" include: Physicians, attorneys, accounting, performing arts, consulting, financial services, brokerage services, investment management, etc. **B.** If your business is not service based, such as manufacturing, you may qualify irrespective of your income.

2 Discuss donating to a donor advised fund with your financial advisor. Donate appreciated stock and receive a charitable deduction without recognizing capital gains. A win-win. Or donate cash and receive a charitable deduction. Continue to invest the monies. Monies and earnings thereon must go to 501(c)(3) charities in the future. Great for business liquidation events or avoiding large capital gains on appreciated stocks.

3 For those over age 70.5, consider transferring RMDs directly to charity. Allows you to exclude otherwise taxable RMDs from taxable income; especially attractive for taxpayers unable to itemize deductions given the new, higher standard deductions.

4 Consider increasing withholdings if facing an estimated tax underpayment penalty. Did you know you can be penalized for not making quarterly payments if you owe with your return? Therefore, quarterly payments may be required – or increased W-2 withholdings.

5 Consider requesting reimbursements in lieu of comparable compensation. Although unreimbursed employee business expenses are no longer deductible itemized deductions, employee business expenses that are reimbursed under an accountable plan are not taxable to the employee.

6 Make sure newly acquired property is "placed-in-service" by December 31st. Many favorable provisions exist to allow you to quickly depreciate newly acquired fixed assets and non-structural real estate improvements. But, in order to take advantage of these provisions, it is important the property be placed-in-service by year-end.

7 Establish a new retirement plan for this year. Certain plans should be established by December 31st (profit sharing, 401(k) or defined benefit plan). SEP-IRA may be established by the due date of the return (including extension). SIMPLE plan must be established no later than October 1st.

8 Postpone income: Defer year-end billings on for certain collections; use installment sales to defer taxable gains; postpone cancellation of debts.

9 Accelerate deductions: As a cash method taxpayer, you can generally accelerate a deduction into this year by paying it this year. "Payment" typically occurs this year if a check is delivered to the post office or if an item is charged on a third-party credit card this year.

10 Consider purchasing transferable state tax credits at a discount. (For individuals with income over $500,000.)

QUALIFIED OPPORTUNITY ZONES

The Tax Cuts and Jobs Act of 2017 (the "Act") created Opportunity Zones (OZ) to spur investment in distressed communities throughout the country. Essentially, you can defer capital gains and exclude tax completely on any appreciation if you invest the gain into a designated OZ and hold it for ten years. It can be thought of as a marriage between the New Market Tax Credits and 1031 Exchanges but potentially better, easier and open to everyone. Each state designates the zones, and you might be surprised by some of the zones – many even located in metro Atlanta, GA.

SUMMARY: A person may elect to defer gain on the sale of an asset if they invest in the OZ Fund within 180 days after the event generating the gain. Note: you do not have to invest the entire gain – only the amount you wish to defer. There is no dollar limitation on the amount available for deferral.

TAX DEFERRAL. The ability to defer payment of taxes on capital gains through December 31, 2026.

REDUCED TAX. Up to 15% reduction of the tax on the deferred capital gain.

TAX FREE GROWTH. All capital gains generated from the fund's investments after a 10 year hold period are tax free.

* The above assumes certain hold periods of the fund are met and the Act is subject to additional regulatory interpretation. Although new, with many details to be worked out via regulations, this is a very interesting and potentially useful tax deferral and savings technique worth considering.

TAKE CREDIT WHEN CREDIT IS DUE

- Apogee/GOAL student education tax credits
- Dependent care tax credits
- Education tax credits
- Electric vehicles
- Energy efficient/solar property
- Excess FICA tax credit
- Fuel/Propane
- Georgia angel investors tax credit
- Georgia film tax credits
- Georgia HEART hospital tax credits
- Georgia music tax credits
- Hiring and retraining
- Research & development
- Work opportunity tax credits and more…

THE NEW TAX LAWS

DON'T PANIC!

We're here to help!

2018/2019 BY THE NUMBERS

2018 IRS mileage rates 54.5 cents business travel, 18.0 cents medical miles, 14.0 cents charitable miles ** 2019 rates TBD at time of publication*

401(k) employee deferrals $18,500 for 2018 / $19,000 for 2019
$6,000 catch-up (over 50) 2018 and 2019

SIMPLE IRA deferrals $12,500 for 2018 / $13,000 for 2019
$3,000 catch-up (over 50) 2018 and 2019

Traditional/Roth* IRA amounts $5,500 for 2018 / $6,000 for 2019
* AGI limitations apply
$1,000 catch-up (over 50) 2018 and 2019

Maximum defined contribution plan contributions
$55,000 for 2018 / $56,000 for 2019

Annual gift tax exclusion $15,000 for 2018 / $15,000 for 2019

Lifetime exclusion $11.18 million for 2018 / $11.40 million for 2019

HSA contribution amounts $3,450 / $6,900 for 2018 (single/family)
$3,500 / $7,000 for 2019 (single/family)

2018 Standard deductions $12,000 Single $24,000 Married/Joint

2018 TAX RATES

SINGLE (for taxable income)		MARRIED/JOINT (for taxable income)	
10%	$0 – $9,525	10%	$0 – $19,500
12%	$9,526 – $38,700	12%	$19,501 – $77,400
22%	$38,701 – $82,500	22%	$77,401 – $165,000
24%	$82,501 – $157,500	24%	$165,001 – $315,000
32%	$157,501 – $200,000	32%	$315,001 – $400,000
35%	$200,001 – $500,000	35%	$400,001 – $600,000
37%	$500,001+	37%	$600,001+

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- Tax Management Services
- Corporate and Individual Tax Compliance and Planning
- Creative Tax-Saving and Credit Techniques
- Outside Controller Services
- Outside CFO/Financial Business Consulting
- Financial Statements
- IRS and State Tax Dispute Resolution and Audit Defense
- Financial/Retirement Planning
- Estate/Succession Planning
- State/Local/Sales/Use Tax Consulting

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