

Tax Minimizers of Oregon Inc.

Inside this Issue:

IRS Update	2
6 mistakes that can spoil a business sale.....	2
Your midyear tax checkup	3
Working past 65? Make the most of your benefits	4

ClientAdvisor

S P R I N G / S U M M E R 2 0 1 8

Everyday Advice

*An investment in knowledge
pays the best interest.*

– Benjamin Franklin

The marriage penalty lives on

The “marriage penalty” occurs when two individuals pay more tax as a married couple than they would as single individuals. The newly passed Tax Cuts and Jobs Act (TCJA) eliminates some of the marriage penalty, but then introduces it in another area of the tax code.

► Lowering the penalty of being married

Prior to the TCJA, the marriage penalty affected taxpayers in the mid to upper tax brackets. The brackets for married couples at those levels were not double the equivalent brackets for single individuals. The income tax brackets for married filers are now double those for single filers, except at the top 37 percent marginal rate.

Even though the marriage penalty has gone away for taxpayers in most tax brackets, more people are being subjected to a marriage penalty in another area: itemized deductions.

► The itemized deductions marriage penalty

The itemized deduction for state and local taxes (SALT) now has marriage penalty implications. Starting in 2018, taxpayers can deduct up to \$10,000 of SALT paid. That limit applies to the combined total of property taxes and either income taxes or sales taxes. This cap is the same for married couples and single filers, meaning that it’s effectively

halved as soon as you get married.

So while married couples claiming the standard deduction get to claim double the standard deduction of single filers, couples who itemize don’t receive double the SALT deduction.

► What this means for married taxpayers

Single taxpayers in states with high income or property taxes will likely continue to itemize deductions because a \$10,000 SALT deduction combined with mortgage interest and charitable contributions may easily surpass the value of the \$12,000 standard deduction. Married couples, however, may have a much harder time getting more value out of the SALT deduction plus other itemized deductions than they would taking the \$24,000 standard deduction.

► You can still find tax breaks

Despite the possible pitfalls created by the TCJA, there are still opportunities to find tax savings. Tax-loss harvesting, charitable contributions and tax-advantaged retirement contributions are just a few areas where you can unlock extra value with smart planning.

Changes to the tax code often create new opportunities. Give us a call for help understanding how you may be affected by the marriage penalty, and to consider tax benefits available to you. ♦

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Home equity loan interest: Is it still deductible?

According to the IRS, despite the Tax Cuts and Jobs Act (TCJA) restrictions on home mortgages, taxpayers can often still deduct interest on a home equity loan, home equity line of credit (HELOC) or second mortgage, no matter how the loan is labeled. Taxpayers have been confused about the issue due to changes in the TCJA. The TCJA suspends the deduction for interest paid on home equity loans and lines of credit, unless they are used to

buy, build or substantially improve the taxpayer's home that secures the loan.

Phishing among top IRS "Dirty Dozen" tax scams

Email phishing schemes were ranked among the most concerning filing season scams this year. Part of the annual listing of the "Dirty Dozen" tax scams for 2018, the scams target both taxpayers and tax professionals by using fake IRS emails and websites to steal sensitive information.

Remember, the IRS generally does not initiate contact with taxpayers by email to request personal or financial information. This also includes text messages and

social media. If you get an unsolicited email from what appears to be the IRS or an organization related to the IRS (like the Electronic Federal Tax Payment System), report it by sending it to phishing@irs.gov.

Interest rates up in second quarter

IRS Interest rates for the second quarter of 2018 have increased since the first quarter. The new rates are as follows: 5 percent for overpayments (4 percent for corporations), 2.5 percent for the portion of a corporate overpayment over \$10,000, 5 percent for underpayments and 7 percent for large corporation underpayments. ♦

6 mistakes that can spoil a business sale

Most entrepreneurs eventually think about selling their businesses, whether as a step toward retirement or to pursue other activities. But they often underestimate the effort needed for a satisfactory outcome. If you're contemplating selling, here are some common mistakes to avoid:

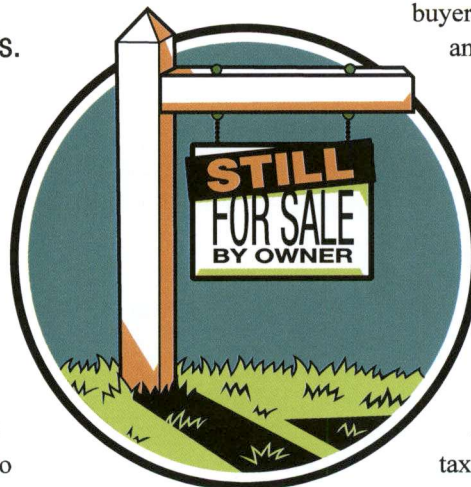
- 1. Overestimating the value of your business.** Your price should be based on the current fair market value of the business. Truth be told, buyers won't care about the work you've put into building your business, or your unique vision for its future. Nor are they willing to pay you for the value they plan to add after the sale.
- 2. Not accounting for variables.** If your business includes significant equipment, real estate, intellectual property or other such assets, those values should be separately established before being factored into the overall price. If you're selling a service or professional firm, much of its value may depend on the experience and skills of your managers and employees. In that case, the price may depend on the retention of key staff.
- 3. Failing to get independent appraisals.** Even if you think you know the value of your business, you should get two or more outside appraisals from professionals familiar with your industry. If their appraisals conflict with your opinion, they'll provide a much-needed reality check. If they confirm your opinion, they'll become a useful sales tool.
- 4. Not hiring a business broker.** Owners may be too personally invested and eager to

sell to effectively negotiate a business sale. A broker familiar with your industry will know what issues are important to buyers and what characteristics to emphasize or downplay, without becoming emotionally involved.

- 5. Poor communication.** Nobody likes being thrust into unfamiliar circumstances without preparation. Notifying your managers, employees and customers in advance and doing all you can to allay their concerns will serve everyone's best interests. This will help avoid conflicts, reduced revenue for the buyer, withheld sale payments and even litigation.

- 6. Being unwilling to help finance the sale.** If you don't want to work on a financing arrangement with a buyer, your sale price is limited to his or her cash and ability to obtain outside financing. At best this could limit the number of potential buyers and at worst it could limit your sale proceeds. But be careful if you do provide financing. If you finance too much of the sale price, you'll be bearing the risk rather than the bank.

Selling your business is too important to attempt without professional help. If you're considering selling, call us for an appointment to help you understand the tax-related issues related to your sale. ♦



Your midyear tax checkup

Summer's here and that means you can take advantage of more than just the warm weather. Take a little time for tax planning now and you'll have six months to make a difference on your 2018 tax return. Due to recent tax changes, planning is more important than ever. Here are a few things to think about:

■ Review your 2017 income and deductions

Check to see if you lost any credits or deductions because your income was above a certain threshold amount. Have either the thresholds or your income changed for 2018? Also determine if the deductions you used last year are available this year.

■ Figure out your 2018 home improvement projects

If you plan on making any improvements to your primary residence this year, determine deductibility under the Tax Cuts and Jobs Act (TCJA). Also review any existing home equity loans to maximize your ability to deduct the interest using acquisition indebtedness rules.

■ Adjust your retirement plan contributions

Are you still making contributions based on last year's numbers? Maximum amounts have increased for some plans in 2018. You can contribute up to \$18,500 to a 401(k) and up to \$5,500 to an IRA. Remember, you can add \$1,000 to those limits in catch-up contributions if you'll be 50 or older by the end of December.

■ Evaluate your investment portfolio

Now is the time to reassert control over your investments. Review your holdings



to see if you should take some losses to offset other income. If you're considering investment purchases, analyze the type of income you'll be receiving from the assets you buy. Then put the investment in the proper account (taxable, deferred or nontaxable) to achieve maximum return and tax savings.

■ Update your estate plan

The estate tax is still alive and well, so as part of your midyear review, do any needed updating to your will and other estate documents. Keep in mind that the federal estate tax will now apply to fewer people, with the exemption doubled to \$11.2 million per individual.

■ Do some business tax planning

Plan your equipment purchases to benefit from the 100-percent first-year bonus depreciation for new and used qualifying equipment. Section 179 may also now be used on expenses related to improvements to nonresidential real estate, including items like roofing and ventilation.

■ Verify college expenses

Now is the time to conduct tax planning for upcoming fall college expenses. Check out the various tax breaks,

including the American Opportunity Credit and Lifetime Learning Credit.

Making time for 2018 tax planning not only helps reduce your taxes, it also helps to put you in control of your entire financial situation. Tax planning should be a year-round process, but it's especially effective at midyear. Give us a call for guidance in implementing the best moves for your particular situation. ♦

Your Tax Calendar

June 15

- Second installment of 2018 individual estimated tax is due.

July 31

- Due date for filing 2017 returns for calendar-year employee retirement or benefit plans (5500 series).

September 17

- Third installment of 2018 individual estimated tax is due.
- Deadline for filing 2017 calendar-year corporation tax returns with extensions of the initial filing deadline.
- Deadline for filing 2017 partnership returns with extensions of the initial filing deadline.

Working past 65? Make the most of your benefits

People often work beyond the average retirement age. But that is not a fixed number. For Social Security purposes, the “full” retirement age threshold ranges from 65 to 67, depending on your birth date.

Here’s what you’ll need to know about your federal retirement and health insurance benefits if you plan on working past your middle 60s:

1. Social Security

- **Eligibility**

You can elect to start receiving lower Social Security payments as early as age 62, or you can maximize your benefits by forgoing them until you’re 70. Once you reach age 70, there’s no incentive to postpone your benefits further, since you’ll already have reached your maximum. Your payments will not be reduced thereafter no matter how much you earn.

***Timing tip:** Consider forgoing the early payment option if you’re going to work beyond full retirement age. Benefits received before then will be reduced by \$1 for every \$2 earned over an annual limit (currently \$17,040).*

- **Taxable benefits**

Up to 85 percent of your benefits may become subject to income tax, depending on the amount of your other income.

- **You could still be paying**

Whether or not you draw benefits, you’ll continue to pay Social Security and Medicare taxes on any income you earn from wages or self-employment.

2. Medicare

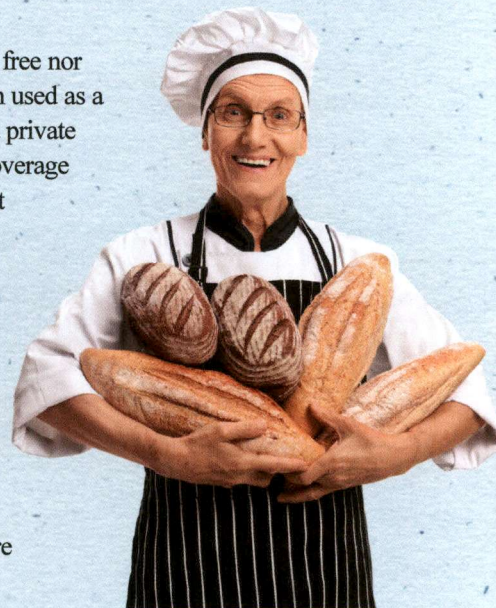
- **Eligibility**

Medicare eligibility begins the year you reach age 65. The program encompasses four types of coverage: Medicare A (hospital insurance), Medicare B (general medical insurance), Medicare C (supplemental medical insurance) and Medicare D (prescription drug coverage).

***Timing tip:** Sign up for Medicare A as soon as you’re eligible. There’s no cost, and the program provides supplemental coverage even if you’re already insured at work.*

- **Benefit details**

Medicare B and D are neither free nor mandatory, but either are often used as a stand-alone program or with a private plan. If you have creditable coverage at work (i.e., coverage that’s at least as good as Medicare), you can postpone signing up for Medicare B and/or D until you’re no longer employed. Your employer’s plan also may offer Medicare C, which provides for private programs administered under contract with the government. These plans typically merge Medicare A and B benefits with other coverage.



Working beyond retirement age can require several complex decisions that can affect your tax obligations. Call us for help with planning the outcome that’s best for you. ♦