

Tax Minimizers of Oregon Inc.

Inside this Issue:

IRS Update	2
Your Tax Calendar	2
Prepare for an IRS audit right now – Here's why	3
What's New in 2018	3
Jumpstart your savings account with these 3 rules	4

ClientAdvisor

W I N T E R / S P R I N G 2 0 1 8

A new tax act calls for new tax moves

A monumental new tax law enacted by Congress in late 2017 referred to as the “Tax Cuts and Jobs Act” (TCJA) includes some of the most sweeping tax changes seen in more than 30 years.

The TCJA cuts tax rates for individuals and businesses, modifies or repeals a slew of deductions, creates new tax opportunities and introduces numerous pitfalls. Generally, individual provisions are scheduled to sunset after 2025, while most business provisions in the new act are permanent.

It will take time for the IRS to sort out all the technicalities, but here are seven key changes – and what you can do about them:

1. Standard deduction vs. itemized deductions. The TCJA doubles the standard deduction to \$12,000 for single filers and \$24,000 for joint filers, while eliminating personal exemptions. It also repeals or modifies numerous itemized deductions, but generally keeps the deduction for charitable donations.

Tax tip: In the past, the decision to itemize was often a no-brainer for taxpayers who own homes or live in a high-tax state, but that’s no longer the case. You’ll now need to determine if it’s better for you to claim the higher standard deduction, and you’ll need to assess your withholdings according to the law changes.

2. Pass-through entities. Businesses treated as pass-through entities for tax purposes (partnerships, S corporations and sole proprietorships) may be entitled to deduct 20 percent of their qualified business income. Guardrails have been put into place to prevent abuse, including a phaseout for most service professionals with income above \$157,500 (\$315,000 for joint filers).

Tax tip: To maximize this tax benefit, try to stay below your threshold when possible, perhaps deferring taxable income at the end of the year. The benefit phases out above the thresholds and depends on your type of business, your wages and value of capital assets.

3. Medical and dental expenses. The deduction for medical and dental expenses has been preserved for those who itemize deductions. The threshold for deducting these expenses is temporarily rolled back from 10 percent to 7.5 percent of adjusted gross income (AGI). This reduction applies for 2017 and 2018.

Tax tip: Before you file your 2017 return, scour your records for expenses that can push you over the 7.5 percent-of-AGI mark. And schedule non-emergency medical and dental visits before year-end to increase your deduction for 2018.

(continued on page 2)

Everyday Advice

Few of us ever test our powers of deduction, except when filling out an income tax form.

– Laurence J. Peter, author

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IRS UPDATE

Fraudsters hit businesses

The IRS saw a steep increase in fraudulent business tax returns throughout 2017. This includes corporations, partnerships, and estate and trust returns (Forms 1120, 1120S, 1065, 1041 and Schedule K-1).

So as a business, your fraud alert should be on high. Signs include rejected filing extensions resulting from employer identification and Social Security numbers already on file, and unexpected tax transcript receipts or IRS notices that don't correspond to anything you've submitted.

First-quarter interest rates remain the same

Interest rates for the first quarter in 2018 have not changed since last quarter. These rates include: 4 percent for overpayments (3 percent for corporations), 1.5 percent for the portion of a corporate overpayment over \$10,000, 4 percent for underpayments and 6 percent for large corporation underpayments.

Check your refund status

Good news – you can check the status of your 2017 tax refund at www.irs.gov/refunds. All you need is your Social Security number or Individual Taxpayer Identification Number (ITIN), filing status and exact refund amount.

The IRS typically issues refunds in less than three weeks from the date of your online submission, or six weeks from receiving your mailed-in return. However, some refunds require more time and tax returns requesting a refund that use either the Earned Income Tax Credit or the Additional Child Tax Credit will be held until after Feb. 15.

Keep track of your amended tax return

Track your amended 2017 tax return using the amended return status tool on the IRS website. As a reminder, your amended return can take up to three weeks after you mail it to appear in the IRS system, and up to 16 weeks to process the return. ♦

Your Tax Calendar

March 1

- Farmers and fishermen who did not make 2017 estimated tax payments must file 2017 tax returns and pay taxes in full.

March 2

- Automatic extension deadline for employers and health care providers to provide Forms 1095-B and 1095-C to individuals.

March 15

- 2017 calendar-year S corporation income tax returns are due.
- 2017 partnership returns are due.
- Deadline for calendar-year corporations to elect S corporation status for 2018.

April 17

- Individual income tax returns for 2017 are due.
- 2017 calendar-year C corporation income tax returns are due.
- 2017 annual gift tax returns are due.
- Deadline for making 2017 IRA contributions.
- First installment of 2018 individual estimated tax is due.

May 15

- Deadline for calendar-year nonprofit organizations to file annual reporting returns.

Tax moves

(continued from page 1)

4. Luxury cars. Although businesspeople can typically deduct depreciation for cars used for business, the deductions are limited by luxury car rules, starting with the year the vehicle is placed into service. These rules kicked in at relatively modest levels, but now the new law increases the annual limits.

Tax tip: If you're in the market for a new business car, factor in the higher depreciation allowance. Also, keep the detailed records required by the IRS so you can prove your business use if your deductions are challenged.

5. Alimony. As opposed to child support, alimony payments are currently deductible by the payer, while the payments are taxable to the recipient. This is often a negotiating point in divorce or separation agreements. The TCJA eliminates the deduction and excludes the payments from taxable income beginning in 2019.

Tax tip: Since these changes don't take effect until 2019, couples divorcing or separating in 2018 should work out a deal with knowledge of the pending law change. Talk to your attorney for guidance.

6. Roth IRA conversions. In contrast to traditional IRAs, a Roth IRA offers the lure of future tax-free payouts. When you convert a traditional IRA into a Roth, you're taxed on the account value at the end of the prior year. However, if the value of the account then drops, you have until your tax return due date (plus extensions) to undo the conversion. This avoids tax on the higher value.

Tax tip: Under the TCJA, you can no longer use this "recharacterization" technique. Think twice before converting to a Roth in 2018, because there's no going back.

7. Estate taxes. Fewer individuals have to worry about federal estate taxes after the new law. That's because the estate tax exemption doubled from \$5.6 million to \$11.2 million. But this increase, like most other changes for individuals, disappears after 2025.

Tax tip: Continue to fine-tune your estate plan for the foreseeable future. Consider that state death taxes may still erode assets passed to your heirs at a much lower level than the new federal exemption.

Call us to set up a time to discuss how your 2018 tax planning will be impacted by the new tax act changes. ♦

Prepare for an IRS audit right now – Here's why

Now is the best time to prepare for a possible audit. Not only is it early into the year, chances are you've just finished up with your 2017 tax return (or plan to soon). That means the deductions, exemptions and other financial information you used to complete your return are fresh in your mind. Take advantage of your tax return momentum and follow these audit prep tips:

■ Use your 2017 tax return as a checklist

Gather all the components of your tax return. This helps to ensure you have the right documentation if state or federal authorities decide to review your 2017 return. It will also give you a good idea of what you'll need to keep tabs on in the future, or what you need to find from the past. Remember, always keep your original documents, and use copies if your records are requested during an audit.

■ Categorize your records (and make a cheat sheet)

The IRS may ask for a variety of documents, which could leave you scrambling. You can speed up the process and minimize errors if you organize your information by year, as well as income and expense type. Include a summary of transactions for each year as a quick guide for yourself and for the auditors.

■ Prepare for questions

It's an auditor's job to ask questions. It's your job to answer with sufficient explanations. Start by considering any and all transactions, income and account information that is multifaceted or particularly complicated. Some common red flags auditors look for are foreign accounts, unreported income and excessive business tax deductions.

Think about possible questions the auditors could ask that would be challenging to answer.



A little preparation can go a long way. Call immediately if you receive an audit notice or simply wish to have questions answered about your tax return and required documentation. ♦

WHAT'S NEW IN 2018

PROVISION	2018	2017
Personal exemption	Suspended through 2025	\$4,050
Standard deduction		
• Single	\$12,000	\$6,350
• Joint returns and surviving spouses	\$24,000	\$12,700
• Married filing separately	\$12,000	\$6,350
• Head of household	\$18,000	\$9,350
• Additional for elderly or blind (married)	\$1,300	\$1,250
• Additional for elderly or blind (single)	\$1,600	\$1,550
Income at which itemized deductions and personal exemptions start to phase out		
• Single	Not applicable	\$261,500
• Joint returns and surviving spouses	Not applicable	\$313,800
• Married filing separately	Not applicable	\$156,900
• Head of household	Not applicable	\$287,650
Alternative minimum tax exemption		
• Single	\$70,300	\$54,300
• Married, joint	\$109,400	\$84,500
• Married, separate	\$54,700	\$42,250
Social Security earnings limit		
• Under full retirement age	\$17,040	\$16,920
• Full retirement age	No limit	No limit
• Maximum wages subject to Social Security tax	\$128,400	\$127,200
Estate tax top rate	40%	40%
Estate tax exclusion	\$11,200,000	\$5,490,000
Annual gift tax exclusion (per donee)	\$15,000	\$14,000
Contribution limit		
• HSA for single	\$3,450	\$3,400
• HSA for family	\$6,900	\$6,750
• HSA additional for 55 or older	\$1,000	\$1,000
• IRA for those under age 50	\$5,500	\$5,500
• IRA for those 50 and over	\$6,500	\$6,500
• SIMPLE plan for those under age 50	\$12,500	\$12,500
• SIMPLE plan for those 50 and over	\$15,500	\$15,500
• 401(k) plan for those under age 50	\$18,500	\$18,000
• 401(k) plan for those 50 and over	\$24,500	\$24,000
“Kiddie tax” threshold	Not applicable*	\$2,100
“Nanny tax” threshold	\$2,100	\$2,000

*Starting in 2018, this income to be subject to trust and estate tax rates.

As you do your planning for 2018, be aware that Congress may make changes to the tax code. See us prior to making major business and personal financial decisions so that current rules and pending changes can be considered. ♦

Jumpstart your savings account with these 3 rules

If you ask yourself whether you are saving enough, can you honestly answer yes? While U.S. savings habits are improving, there are still about a quarter of Americans polled who have no emergency funds, according to the 2017 Bankrate.com recent financial security study.

If you want to ramp up your savings, every little bit helps. Start by cutting back on things like restaurant meals. Use these funds to build your savings. If you're committed to building wealth, it's also essential to focus on the ideas that will make the biggest difference in the long run. For many Americans, that means attacking household debt with a vengeance.

Make household debt your enemy

If your credit card payment is big, your car payment bigger and your mortgage payment even bigger, your savings accounts may be starved. And without enough cash to cover emergencies, many people resort to credit cards and lines of credit to cover unforeseen expenses. So the debt cycle continues.

Here's how to get ahead of the curve:

1 Build an emergency fund. The general rule is to set aside enough to cover three to six months of living expenses. As a first step, track your

expenses for a month. Discover how much you really spend on groceries, utilities, etc. Then project those expenses out three to six months. That is how much you need to reserve for your emergency fund.

2 Review your income.

Consider your job stability, alternate sources of income and how long it would take to find another job in your field. If you figure that your income is more or less vulnerable, use that to adjust how much you save in your emergency account.

3 Figure out where to stash your savings.

You want funds to be available when you need them, and without withdrawal penalties or tax consequences. With that in mind, a money market or interest-paying savings account is often the best place to park an emergency fund. Avoid savings vehicles that have hefty withdrawal penalties or that expose you to unexpected capital gains.

Here's how you can stay on track

Once you have an emergency fund, treat your savings as your most important monthly bill. Write a check to savings



first, or have your savings automatically deducted from your checking account or paycheck.

Tax-deferred retirement accounts offer a smart way to save money for retirement. If your employer offers a 401(k) or SIMPLE retirement plan, contribute as much as you can. If your employer offers no plan, contribute to an individual retirement account (IRA). The money you contribute to a retirement account can reduce your taxable income and grow tax-free until withdrawn.

When it comes to saving, think "control." For example, control the use of your credit cards. The amount you pay each month in finance charges could go to savings instead. Also, control the use of your ATM card. Get in the habit of giving yourself a regular cash allowance, and try to live with it. ♦