Scott Boyar, CPA, PLLC.
CERTIFIED PUBLIC ACCOUNTANT

"It's Not What You Earn, But What You Keep, After Taxes ™"

704-527-2725
www.sboyarcpa.com
scott@sboyarcpa.com

TAX NEWS & TIPS

FALL 2018

New Tax Reform Update

Now that Tax Reform is a reality, I want to devote most of this issue to the steps each taxpayer should take to examine their own tax situations before we file your 2018 Tax Return early in 2019. The vast number of changes in deductions, exemptions, standard deduction and tax rates enacted by the New Tax Reform Provisions could cause dramatic changes in refunds or balance dues for unexpecting taxpayers. Let's plan-ahead so that there are no surprises!

We will first look at withholding taxes under the New Tax Reform Provisions and then at the overall comparison of the New Reform Provisions vs. the old law.

❑ Federal Tax Withholding Tune-Up

2018 is more than half gone. This is a good time to ask yourself, "How am I doing?" Are you safe to presume your tax issues will be like 2017? Of course not! The recently enacted Tax Reform Provisions have dramatically changed how each taxpayer will calculate their taxable income in 2018 and the amount of taxes that are required to be withheld or paid through estimated payments. There is still plenty of time left in the tax year to enact plans which will affect your overall tax situation.

Major tax reform was approved by Congress in the Tax Cuts and Jobs Act on Dec. 22, 2017. One change directly affected the rate at which taxes are withheld from paychecks. You should have noticed this if you are still working for an employer and receiving a paycheck. Our federal income tax is a pay-as-you-go tax system and there are two ways to pay as you go, either through withholding or estimated tax payments.

If you are an employee, your employer may withhold income tax from your pay. Your pay includes your regular pay, bonuses, commissions, vacation pay and other amounts. When the withholding rates change, it changes the amounts that are paid to the IRS on your behalf. To ensure that enough withholding is paid and to avoid owing a balance due and possible penalties, it is recommended that everyone do a "Federal Tax Withholding Tune-up" now.

I recommend that taxpayers check the amount withheld each year; particularly when the rates you pay change or your family situation changes. It's especially important for taxpayers with more complicated financial situations to verify they are withheld as the law also changed the standard deduction, removed personal exemptions, increased the child tax credit, limited or discontinued certain deductions and changed the tax rates and brackets. Married taxpayers who both work, taxpayers who work multiple jobs and taxpayers who work part of the year are some of the groups that are particularly subject to tax withholding amounts (from the IRS Tax Withholding Charts) which may not properly reflect the tax necessary to be withheld.

You can use the IRS Withholding Calculator on IRS.gov. This tool is designed to help you determine the right amount of tax to be withheld from your paycheck.

The amount of income tax your employer withholds from your regular pay depends on two things: the amount you earn, and the information you give your employer on Form W–4, Employee's Withholding Allowance Certificate.

If your employer isn't withholding the proper amount to cover your taxes under the new rates provided to them by the IRS, you may need to complete a new Form W–4 to change the amount withheld. If you need help, call me.

Tax may also be withheld from certain other income — including pensions, social security payments, bonuses, commissions, and gambling winnings. In these cases, the amount withheld is usually calculated at a set percentage of the payment and is paid to the IRS in your name. These withholding amounts should also be reviewed for changes brought about by the recent tax reform provisions.

See "Tax Reform Update" on page 2

Ask Me About...

- Are you thinking of taking a distribution from an IRA or 401k? Are you older than 59 ½?
- Do you have stocks or mutual funds that you are planning to sell that have greatly increased in value? Have you owned those assets longer than 1 year?
- Are you planning on retiring and collecting social security before the current full retirement age of 66?
- Starting distributions from a retirement plan? Lump-sum distribution possibilities? What are the tax consequences?
- Does your employer offer a medical saving plan? What should you know?

Inside This Issue

Tax Reform Update: *Four Examples* *("Tax Reform" continued from page 1)*

The previous review of your wage tax withholding gives you part of your overall picture. The following four examples of how taxpayer's overall tax will compare under the New Tax Reform Provisions vs prior law will give you another piece. How do your new withholding taxes compare to taxes withheld last year? Will that increase/decrease be offset by the following tax situations (if similar to your own) illustrated below?

✍ Example 1:

Two Wage Earner Family Of Four: Saves $3,559 In Federal Tax

Facts: ⏩Family of four (married couple with two children under 17) ⏩Homeowners ⏩Combined wages of $150,000 ⏩Itemized deductions totaling $22,000 ($7,000 state/local tax; $4,000 real property tax; $1,000 personal property tax; $8,000 mortgage interest; $2,000 charitable contributions).

What would change under the Tax Reform Provisions:

⏩Itemized vs. standard deduction. Under prior law, the family's itemized deductions totaled $22,000. Under the new Tax Reform Provisions, the expanded standard deduction of $24,000 is more advantageous for the family. The deduction for state and local income tax (or sales tax if taxpayer chooses), real estate tax and personal property tax is capped at $10,000 – reducing the family's allowable itemized deductions to $20,000. However, the reduction of these deductions is more than offset by the higher standard deduction.

⏩Tax rate. The family is in the 22 percent tax bracket, compared to the 25 percent tax bracket under prior law. ⏩Tax credits. Under prior law, this family would not receive a Child Tax Credit (CTC) due to income phaseouts. This family is eligible for a CTC of $4,000. ⏩Exemptions. While personal exemptions are eliminated, a combination of the increased standard deduction, increased CTC and lower rates make up for the loss of $16,600 in exemptions.

Results: *Even with the removal of exemptions, this family would save $3,559 compared with prior law. The savings are due to an increased standard deduction, lower tax bracket, and a more generous CTC.*

✍ Example 2:

Lower-Income Head Of Household With Two Children: Saves $1,802

Facts: ⏩Family of three (single parent with two children under 17) ⏩Renters ⏩Wages of $45,000 ⏩Used standard deduction of $9,550 under prior law.

What would change under the Tax Reform Provisions:

⏩Standard deduction. Because this family uses the standard deduction, the higher standard deduction of $18,000 is $8,450 more favorable. ⏩Tax rate. The family is in the 12 percent tax bracket, compared to the 15 percent tax bracket under prior law. ⏩Tax credits. The Child Tax Credit (CTC) is expanded and increases from $1,000 to $2,000 per qualifying child. With 2 qualifying children, this taxpayer receives a CTC of $4,000 versus a $2,000 credit under prior law. ⏩Exemptions. While personal exemptions are eliminated, a combination of the increased standard deduction, increased CTC and lower rates make up for the loss of $12,450 worth of exemptions.

Results: *Even with the loss of $12,450 worth of exemptions, this family would save $1,802 compared with prior law because of the increased standard deduction, lower tax rates, and the increased CTC.*

✍ Example 3:

Middle-Income Single Filer: Saves $101

Facts: ⏩Single filer ⏩Homeowner ⏩Wages of $120,000 ⏩Itemized deductions totaling $22,500 ($10,000 state/local tax; $5,000 real property tax; $6,000 mortgage interest; $1,500 charitable contributions)

What would change under the Tax Reform Provisions:

⏩Itemized vs. standard deduction. The deduction for aggregate state and local income tax and property tax would be capped at $10,000. This taxpayer's combined real estate tax, and state and local income tax is $5,000 over the $10,000 maximum. However, the total of the $10,000 allowable state and local tax deductions, mortgage interest deductions, and charitable contributions exceed the expanded standard deduction of $12,000 for a single filer. Therefore, itemizing is still more advantageous by $5,500. ⏩Tax rate. This filer is in the 24 percent tax bracket compared to the 28 percent tax bracket under prior law. ⏩Exemptions. This taxpayer's $4,150 personal exemption is eliminated.

Results: *This single filer would have a $101 decrease in taxes. The rate reductions make up for the loss of $5,000 in itemized deductions ($22,500 - $17,500) and the loss of the personal exemption of $4,150.*

✍ Example 4:

High-Income Single Filer: Pays $6,470 More

Facts: ⏩Single filer ⏩Owns condo ⏩Wages of $500,000 ⏩Itemized deductions totaling $135,000 limited to $128,001 due to limitation for high earners ($46,000 state/local income tax; $24,000 real property tax; $55,000 mortgage interest; $10,000 charitable contributions) ⏩Would pay AMT under prior law.

What would change under the Tax Reform Provisions:

⏩Itemized vs. standard deduction. The deduction for aggregate state and local income tax and property tax would be capped at $10,000. This taxpayer's combined real estate tax and state and local income tax is $60,000 over the $10,000 maximum. As a result, itemized deductions are limited to $75,000. This taxpayer is still itemizing. ⏩Tax rate. The taxpayer is in the 35 percent tax bracket, compared to the 33 percent tax bracket under prior law. However, the taxpayer would pay AMT under prior law and will not under the New Tax Reform Provisions.

Results: *This taxpayer will pay $6,470 more tax compared with prior law, due to the $10,000 cap for state and local tax and the higher marginal tax bracket.*

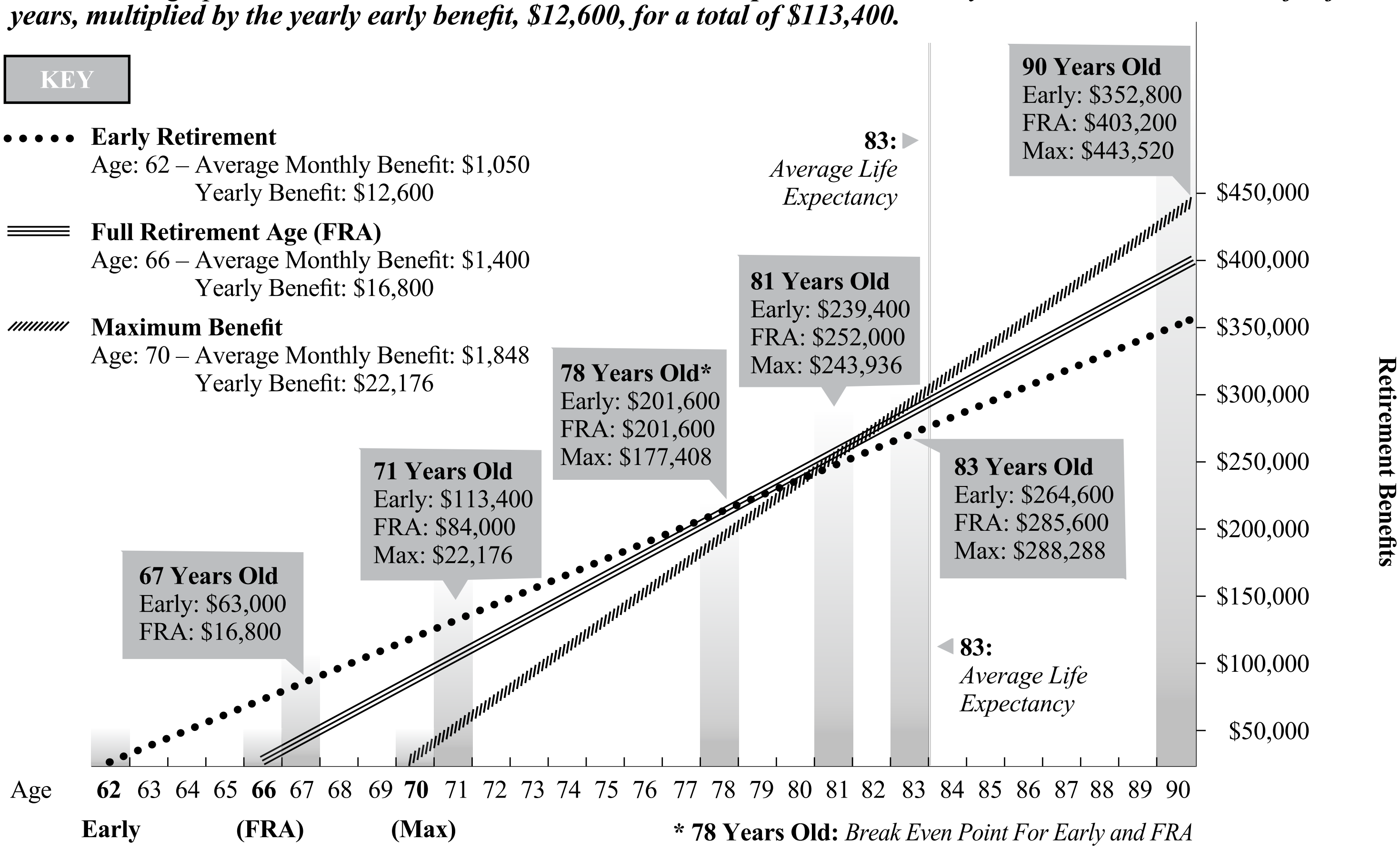
Tax Tips For You... *Now!*

The debate continues… Should I start taking my social security benefits early (age 62), at full retirement age (currently age 66) or wait for the maximum at age 70? The chart below illustrates the current average benefits at each starting point (ages 62, 66 & 70) and their cumulative amounts over the years, up to age 90.

The Break Even Point – *What Is The Best Age To Start Receiving Social Security Benefits?*

If you decide to wait for your full retirement age (66) but your co-worker of the same age chooses to retire early (62), how long will it take for you to match the benefits paid to your colleague? What if you wait until you're 70 to collect the maximum benefit?

Boxes on the graph below indicate total amounts received. ***Example: At 71, the early retiree has collected benefits for nine years, multiplied by the yearly early benefit, $12,600, for a total of $113,400.***



*** 78 Years Old:** *Break Even Point For Early and FRA*

"Myth vs. Truth" from page 4

many additional families will benefit.

Myth: Tax reform will make filing returns a lot easier.

Truth: Simplification was a major goal of tax reformers, and the new rules will make things easier for some filers. An estimated one in five taxpayers will switch from itemizing to taking the standard deduction. These taxpayers should continue to hang onto medical or charitable contribution receipts and other paperwork. Even though these deductions have limitations or may be eliminated on the federal level, many state income tax returns still allow some of these deductions in various forms. Also, Heath Savings Accounts and Medical Saving Plans may need receipt verifications. With that said, not everyone will find tax-return filing to be any simpler, especially those who continue to itemize. Additionally, there are some new provisions that some taxpayers will need to learn about. Among them is a new 20-percent deduction for people who own "pass-through businesses."

This provision will require complex calculations that have never existed in the past.

There's also a lingering lack of clarity regarding which business owners can take advantage of this deduction and other details.

Myth: Mortgage interest is no longer deductible.

Truth: Mortgage interest will remain deductible for most homeowners.

The new law did change the rules so that mortgage interest now only can be deducted on up to $750,000 in debt (on your primary home and one additional dwelling).

This restriction applies only to newer loans taken out after Dec. 14, 2017. Any loans in place prior to then are still subject to the (previous) $1-million debt limit. If the interest on a loan was deductible in 2017, it will likely still be deductible in 2018.

Debt Cancelled By Lender?

According to the IRS, nearly any debt you owe that is canceled, forgiven or discharged becomes taxable income to you. You'll receive a Form 1099-C, "Cancellation of Debt," from the lender that forgave the debt. Common examples of when you might receive a Form 1099-C include repossession, foreclosure, return of property to a lender, charge-off of credit card balances, abandonment of property, or the modification of a loan on your principal residence.

Even if you receive a Form 1099-C from a lender, you still may be able to avoid taxation on the forgiveness of a debt. If your debt was discharged in a Title 11 bankruptcy proceeding, such as a Chapter 7 or Chapter 13 case, you're not responsible for taxes on that debt.

If you can demonstrate to the IRS that you were insolvent at the time the debt was cancelled, you can similarly avoid taxes on that debt. Certain other types of debt, including qualified farm indebtedness and qualified real property business indebtedness, can also avoid taxation in the event of cancellation. Very complicated stuff…call me!

What if I get a letter from the IRS? If you get a letter from the IRS, try not to panic, just call me. The letters can be confusing. Don't risk making a simple issue a full-blown problem.

2018 Mileage Deductions

Standard mileage rate increases to 54.5 cents per mile, up from 53.5 cents for 2017. The rate for medical and moving mileage increases to 18 cents per mile, up from 17 cents. The charitable mileage rate remains at 14 cents per mile.

Extensions Expire October 15

A few of you have not filed for 2017. Please make every effort to find remaining missing forms or information. We have little time remaining to file your return. ***Contact me as soon as possible.***

Scott Boyar, CPA, PLLC.
CERTIFIED PUBLIC ACCOUNTANT
5200 Park Rd., Ste. 122, Charlotte, NC 28209

RETURN SERVICE REQUESTED

Your Tax Calendar

Sept 17 3rd quarter estimated tax payments due.

Oct 1 Deadline to establish a Simple IRA for self-employed or small businesses.

Oct 15 Extended Individual Tax Returns for 2017 due.

Dec 31 Last chance for deductions for 2018.

Jan 15, 2019 4th quarter estimated tax payment due.

Anytime you have any questions, don't hesitate to call me. I am here for you!

Myth vs. Truth

Myth: Borrowers no longer can deduct interest on home equity loans.

Truth: For many people with home-equity loans, the interest deduction was eliminated. But some borrowers still will be able to make use of this tax break. It really boils down to how loan proceeds are used.

As long as the borrowed amount is used to buy, build or substantially improve a home, the interest remains deductible.

Myth: Tax Reform means parents no longer will receive tax breaks for their kids.

Truth: The personal exemption of $4,050 has been eliminated for the taxpayer, spouse and dependents. However, the newly expanded child tax credit will help to offset that.

The tax credit for children under age 17 has doubled to $2,000, plus there's a new $500 credit for other dependents. So older kids or even your parents who are dependents can qualify for a new credit.The income levels for eligibility have also risen dramatically, meaning

See "Myth vs. Truth" on page 3