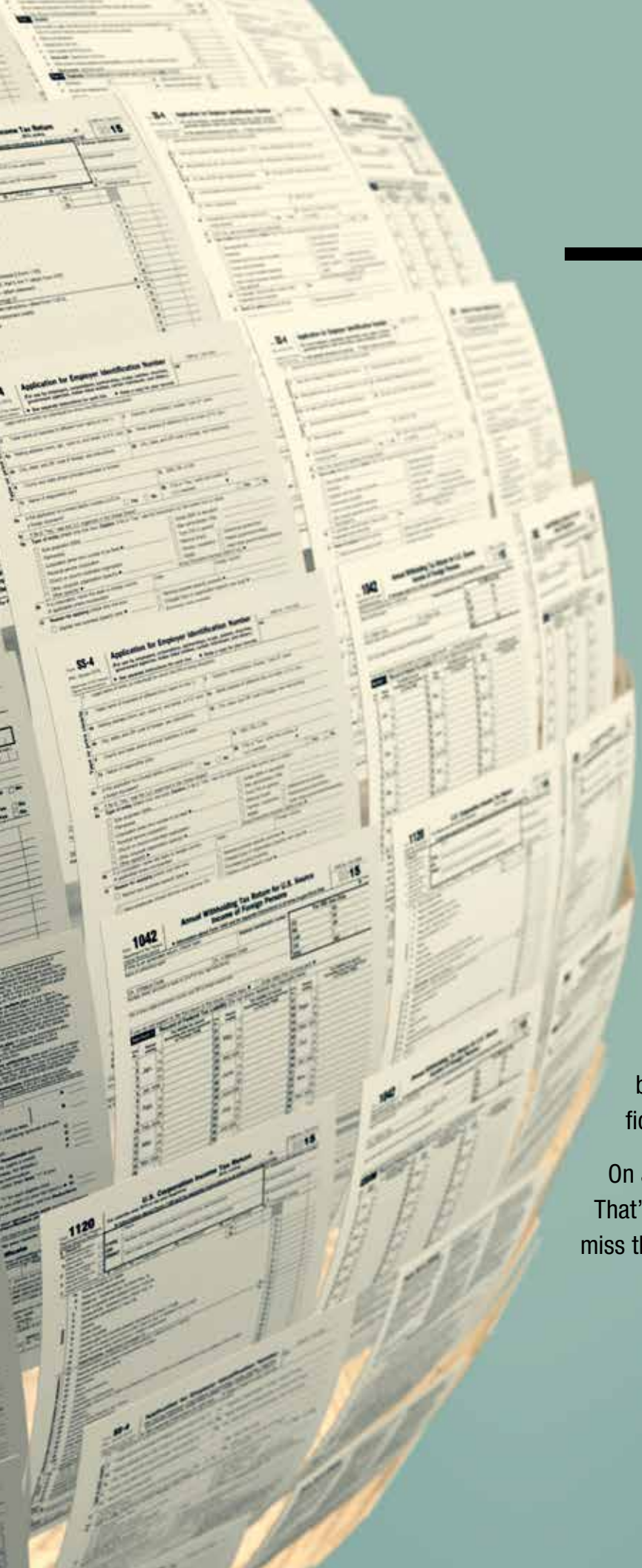

2019 TAX PLANNING

YEAR-END PREPARATIONS

The countdown begins. Once the clock rolls us into 2019, tax season gets underway. The old calendar year, 2018, will have been put officially to rest.

Deductions from your paychecks and other income sources will begin counting for the New Year.

Once it's 2019, we can celebrate, and look to even better days ahead. But we dare not neglect our fiduciary obligations to the old year.

On January 1, it'll be 104 days to April 15, 2019. That's the deadline the IRS sets for tax returns. If you miss that deadline, you may face consequences.

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HOW TO PREPARE FOR THE 2019 TAX SEASON

While April 15, 2019 looks pretty much the same as any other day on the calendar, it marks the official end of 2018 for the American taxpayer (for the most part).

In retrospect, 2018 has rolled across a very different fiscal landscape. Previous years bare only slight resemblance to 2018 on a number of fronts.

At the forefront, 2018 showcased President Trump's Tax Cuts and Jobs Act, which became law on December 22, 2017. [1]

The act significantly altered the U.S. tax code: Deductions changed, tax brackets shifted, and exemptions were revamped.

While in the early months of 2018 supporters celebrated the act's passage and touted its benefits by pointing to higher take-home pay for most American workers, the internal framework of the new law was yet to be felt completely.

Nonetheless, U.S. Treasury Secretary Steven T. Mnuchin gushed in early January: "Most American workers will begin to see bigger paychecks. We estimate that 90 percent of wage earners will experience an increase in their take home pay." [2]

The act is viewed as the biggest overhaul of the tax code since the Tax Reform Act of 1986. [3]

American taxpayers who filed returns in early 2018 followed provisions for the 2017 tax year. Filings in 2019 will be for the 2018 tax year—under the Tax Cuts and Jobs Act.

WHAT DOES IT LOOK LIKE?

The act retains the seven federal income tax brackets as under former tax law, but lowers most taxpayers' rates.[4] The top rate, for example, drops from 39.6% to 37%. Income requirement levels also change in the individual tax brackets.

The new brackets are: 10%, 12%, 22%, 24%, 32%, 35%, and 37%.[5]

Here are the tax brackets and the corresponding income ranges: [6]

2018 Tax Rate	Single	Married Filing Jointly
10%	$0 to $9,525	$0 to $19,050
12%	$9,526 to $38,700	$19,051 to $77,400
22%	$38,701 to $82,500	$77,401 to $165,000
24%	$82,501 to $157,500	$165,001 to $315,000
32%	$157,501 to $200,000	$315,001 to $400,000
35%	$200,001 to $500,000	$400,001 to $600,000
37%	over $500,000	over $600,000

The raising of income requirements for the tax brackets also means wage earners may fall into lower brackets.

Here's one example. A single filer at $90,000 in taxable income would fall into the 25% bracket for tax year 2017. The filer would be in the 24% tax bracket in 2018.

Another single filer with an income of more than $426,700 (but less than $500,000) would have been in the 39.6% bracket in 2017.

But the filer would be in the 35% bracket (the second highest) in 2018, a 4.6% reduction. The new income threshold for the top income bracket is $500,000.

These new rates are scheduled to expire in 2025 unless Congress acts to make them permanent. Exemptions also changed under the new tax code.

Here is an overview of the standard deductions since 2016: [7]

Tax Year	2018	2017	2016
Single	$12,000	$6,350	$6,300
Married filing jointly	$24,000	$12,700	$12,600
Married filing separately	$12,000	$6,350	$6,300
Head of household	$18,000	$9,350	$9,300
Personal exemption	Repealed	$4,050	$4,050

To avoid headaches and penalties, mark your calendar with the following key dates:

JANUARY 15, 2019

4TH QUARTER 2018 ESTIMATED TAX PAYMENT DUE

If you are self-employed or have other fourth-quarter income that requires you to pay quarterly estimated taxes, postmark this payment by January 15, 2019.

APRIL 15, 2019

2018 INDIVIDUAL TAX RETURNS DUE

Most taxpayers have until April 15 to file tax returns. Email or postmark your returns by midnight on this date.

INDIVIDUAL TAX RETURN EXTENSION FORM DUE

If you can't file your taxes on time, file your request for an extension by April 15 to push your deadline back to October 15, 2019.

1ST QUARTER 2019 ESTIMATED TAX PAYMENT DUE

Pay your first estimated tax payment for 2019 by this date.

LAST DAY TO MAKE A 2018 IRA CONTRIBUTION

If you haven't already contributed fully to your retirement account for 2018, April 15 is your last chance to fund a traditional IRA or a Roth IRA; however, if you received a filing extension, you have until October 15 to contribute to a Keogh or SEP plan.

JUNE 17, 2019

2ND QUARTER 2019 ESTIMATED TAX PAYMENT DUE

Pay your second estimated tax payment for 2019 by this date.

SEPTEMBER 16, 2019

3RD QUARTER 2019 ESTIMATED TAX PAYMENT DUE

OCTOBER 15, 2019

EXTENDED INDIVIDUAL TAX RETURNS DUE

If you received an extension, you have until October 15 to file your 2018 tax return.

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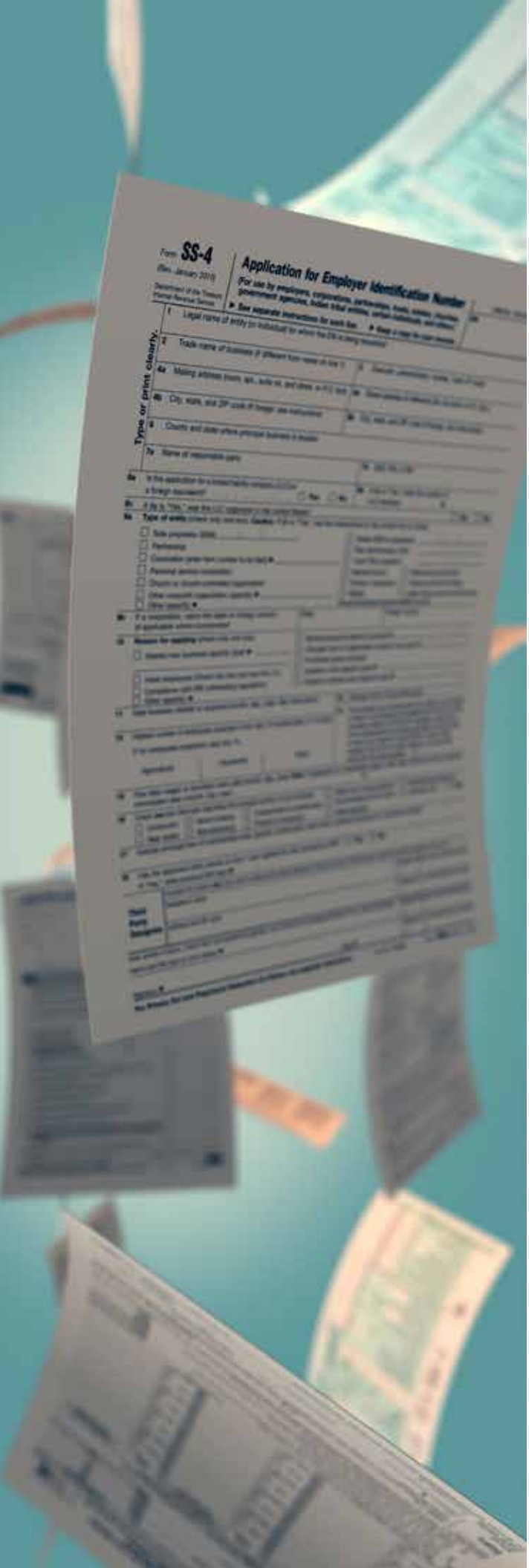
*Cut along the dotted line to keep this calendar for later use!

If you have questions, please give us a call at (800) 932-0017



The higher standard deductions may make it more attractive for many taxpayers compared to itemizing. Taxpayers who had itemized to take advantage of deductions for high mortgage interest, large charity donations, or local taxes may be unable to reach the standard deduction's higher limit.

Under previous tax law, taxpayers could claim exemptions for themselves, spouses, and dependents.[8] Exemptions lowered taxable income by $4,050 each.

The act eliminates all personal and dependent exemptions. The higher deduction is intended to fill that exemption gap.

HOW TO PREPARE

While the tax structure has undergone substantial changes, you may expect to encounter few differences in the actual filing process. The filing and other deadlines haven't changed. While the act may have changed the amount you pay in taxes or the size of your take-home check, you should begin making preparations early to avoid any unforeseen challenges.[9]

Get a checkup: As a starter, the IRS urges taxpayers to conduct paycheck checkups.[10] The agency provides tools and resources to help you calculate the correct amount to have withdrawn from your paycheck.

The calculator will help you determine if your employer is withholding adequate amounts from your paycheck. The calculator asks for your projected gross income, your current withholding number, the current amount of federal taxes withheld, and other paycheck-related questions.

The calculator leads you through various screens that require you to enter requested numbers into boxes. The calculator looks similar to a tax-filing form.

The final figure: Once the calculator generates a number of the estimated taxes you'll either owe or be refunded, it offers suggestions on how to change your withholding amount or request to get additional money withheld from your check.

The average IRS refund usually exceeds $2,800.

If the calculator shows you'll owe taxes at the end of the

year, you may file a new Form W-4, Employee's Withholding Allowance Certificate,[11] following the advice provided by the calculator.

Advice may include changing the number of allowances you're claiming (line 5), or requesting your employer withhold additional money (line 6).

Taxpayers who receive pension income may use Form W-4P. [12] Once completed, send the form to your payer if you're making adjustments or changes.

WHAT DO YOU NEED TO HAVE TO USE THE CALCULATOR?

To generate a calculation, you'll need to have these documents:

- A recent pay stub
- A recent income tax return
- A copy of a completed Form 1040, which will help you estimate your income

The calculator will not request you provide personal or private information. It will, however, ask you the number of children you expect to claim for the Child Tax Credit and the Earned Income Tax Credit.

Taxpayers with more complex tax issues may follow the instructions in Publication 505, Tax Withholding and Estimated Tax.[13]

WHO SHOULD USE THE CALCULATOR?

The IRS urges taxpayers who have questions or concerns about changes in the tax code to use the calculator.

Specifically, the agency advises you to check your withholding if you:

- Have a two-income household.
- Have two or more jobs.
- Work only part of the year.
- Can claim child tax and other credits.
- Have dependents that are 17 and older.
- Itemized your deductions last year.
- Are a high earner or have a complex tax return.
- Received a large tax refund or paid a large tax bill for 2017.

LOOKING AT ITEMIZING

The IRS has revamped the way itemized deductions can be claimed on Schedule A.[14] Schedule A is a separate tax form attached to standard 1040 forms. [15]

Changes to the itemized deductions for 2018 include:

- Itemized deductions are not limited if your adjusted gross income (AGI) exceeds a certain amount. Your adjusted gross income is the portion of your income that is taxable. [16]
- Medical and dental expenses that exceed 7.5% of your AGI may be deducted.
- Total deductions from state and local income, sales, and property taxes are limited to $10,000. It's $5,000 if you're married and filing separately.
- Job-related and other miscellaneous expenses—that were subject to the 2% AGI limit—can no longer be deducted.
- Certain other expenses, such as gambling losses, can still be deducted.
- Deductions for the interest on mortgage debt—incurred after December 15, 2017—is limited to up to $750,000 of the home's loan amount. The new limit doesn't apply if you contracted to close on your home after December 15, 2017, and close before April 2, 2018.
- The cash charity contribution limit is 60% of your AGI, a 10% increase from 2017.

Other changes in deductibles include:

You may no longer deduct moving expenses unless you're on active duty in the U.S. military.

The Child Tax Credit under 2018 tax reform rose to $2000 per qualifying child. The refundable portion of the credit (referred to as the additional child tax credit) is limited to $1,400 and applies when taxpayers

are unable to fully use the $2,000 nonrefundable tax credit to offset their taxes. The credits phase out at income thresholds of $200,000 or $400,000 for married taxpayers filing jointly. [17]

The tax code established a tax credit of up to $500 for other dependents who may not qualify for the child tax credit. Children who you plan to claim as dependents must have social security numbers prior to the due date of your tax return (which is April 15, 2019). Children who don't have social security numbers but have individual taxpayer identification numbers may be claimed under the new credit for other dependents.

PREPARING FOR THE TAX SEASON

Planning well in advance of the tax season will help better prepare you for the unexpected.

Here are several reasons to begin planning early: [18]

- Your home, job, or relationships changed in 2018.
- You need to start saving money if you think you may owe taxes.
- You want to ensure you qualify for tax deductions.

You can make changes throughout the year to ensure your tax preparations go smoothly.

Specifically, you can make periodic assessments of your paycheck withholdings so that you'll get a refund or to reduce or eliminate your tax burden.

You should keep track of and store your tax and other financial records to avoid delays or frantic preparations as the filing deadline approaches. Records may include W-2 forms, canceled checks, certain receipts, and previous year returns.

Here is a list of other items to start gathering:

- Pay stubs
- Mortgage payment records
- Closing paperwork on home purchases
- Receipts for items or services you may want to claim as itemized deductions
- Records on charity giving and donations
- Mileage logs on cars used for business
- Business travel receipts
- Credit card and bank statements to verify deduction
- Medical bills
- 1099-G forms for state and local taxes
- 1099 forms for dividend or other income

During the first three months of 2019, make sure you receive your W-2 and 1099 forms and any other necessary tax documents. Leave adequate time to collect documents and prepare to file your taxes prior to the April 15, 2019 deadline.

TIGHTENING THE NUTS AND BOLTS

While the 2017 tax season is more than six months behind us, the final months of 2018 provide taxpayers with some unique opportunities to avoid unpleasant surprises and scrambling as the finish line draws near.

Here are some ways to prepare this year for next year's tax season: [19]

Look at last year: Take one more look at last year's (2017) return. In the months ahead, you may still have the opportunity to contribute more to your retirement plan, which may lower your taxable income.

Donating to charity: How about "bunching" your charitable donations? Under the Tax Cuts and Jobs Act, the new standard deduction of individual taxpayers rose to $12,000 (from 2017's $6,350).

For married couples, deductions must exceed $24,000 (from $12,700 in 2017). These deduction limits only apply if you itemize your deductions. [20]

Bunching provides you with the ability to optimize your deduction allowances by making two or more years' worth of charity donations in one year to boost the amount.

Let's say you're married, you plan to itemize your deductions (as opposed to taking the $24,000 standard deduction), and you plan to make $15,000 in annual donations. By donating $30,000 in one year and skipping the next, you may be able to qualify for the higher amount.[21]

The IRS allows you to deduct an amount to charity up to 60% of your adjusted gross income; however, the agency sets 20% and 30% limits in some cases. The IRS provides a list of deduction limit codes for different kinds of organizations.[22]

Capital losses: If you're investing in the stock market, you may want to consider deducting capital losses. Although many economists view 2018 as a good market year, those who experienced losses still have the opportunity to claim deductions.

You can claim losses only if they exceed capital gains. You're allowed to claim the difference up to $3,000 per year if you're married filing jointly or $1,500 if you're filing separate returns.[23] Net losses that exceed $3,000 can be carried over into future years.[24]

Deductions for capital losses can only be applied to investment property sales, but not the sale of investment property that was held for personal use.

Get organized: Find a place to store your tax documents until it's time to prepare to file. A good record-keeping system may alleviate concern later on as the deadline gets closer.

If you have your documents or prior-year returns stored on your computer, make sure you back them up on a thumb drive or other device or system in case your computer is hacked or stolen.

Other taxes: Keep watch on local and state government requirements. Changes produced on the federal level with the Tax Cuts and Jobs Act affect state and local governments.

HOW LONG?

The IRS provides recommended timelines for retaining financial documents: [25]

1. You should keep your tax records for three years if item 4 does not apply to you.

2. You should keep records for three years from your original filing date of your return (which is typically prior to the April 15 deadline) or two years from the date you paid your taxes. Select whichever is the later date. This is if you claimed a credit or refund after you filed your return.

3. You should keep your records for seven years if you claimed a loss from worthless securities or a bad-debt deduction.

4. You should keep your records for six years if you failed to report income that you should have, and the income was more than 25% of the gross income listed on your return.

5. You should keep employment tax records for at least four years after the due date on the taxes or after you paid the taxes. Select whichever is later.

CONCLUSION

We hope you found this report educational and informative. You may incorporate the principles and tips in this report into your tax preparation strategy.

Planning well in advance may enable you to take advantage of the opportunities and benefits available under the new tax code.

Discussing your unique situation with both a financial professional and a tax professional may help you make the best choices as tax season approaches.

If you or anyone close to you would like to discuss how to maximize your financial situation, please give our office a call at (800) 932-0017 to schedule a consultation.

Warm Regards,

Regatta Research & Money Management

FOOTNOTES, DISCLOSURES, AND SOURCES

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[1] https://www.congress.gov/bill/115th-congress/house-bill/1/text

[2] https://home.treasury.gov/news/press-releases/sm0249

[3] https://www.brookings.edu/research/effects-of-the-tax-cuts-and-jobs-act-a-preliminary-analysis/

[4] https://www.investors.com/etfs-and-funds/personal-finance/how-tax-reform-impacts-your-tax-bracket-and-rate/

[5] https://www.forbes.com/sites/kellyphillipserb/2018/03/07/new-irs-announces-2018-tax-rates-standard-deductions-exemption-amounts-and-more/#127e0d473133

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[10] https://www.irs.gov/individuals/irs-withholding-calculator

[11] https://www.irs.gov/pub/irs-pdf/fw4.pdf

[12] https://www.irs.gov/pub/irs-pdf/fw4p.pdf

[13] https://www.irs.gov/pub/irs-pdf/p505.pdf

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[15] https://www.investopedia.com/terms/s/schedulea.asp

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[23] https://www.irs.gov/newsroom/helpful-facts-to-know-about-capital-gains-and-losses

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[25] https://www.irs.gov/businesses/small-businesses-self-employed/how-long-should-i-keep-records

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