An HBK Tax Advisory Group Publication

HBK® CPAs & Consultants

2018 Year-End Tax Planning for Individuals and Businesses

Tax Advisory Group

IN THIS LETTER

As 2018 winds down, business owners may still benefit from several tax savings strategies. At HBK CPAs & Consultants, we want to ensure that our clients and colleagues are aware of the many opportunities still available and applicable even this late in the year.

Year-end planning for 2018 is complicated by the various changes to the tax code under the Tax Cuts and Jobs Act (TCJA), and changes to come under new proposed regulations being announced by the IRS. These changes have begun to take shape and may drastically alter your tax position for the 2018 tax year and require alternative tax planning strategies for this tax year. These changes have significantly altered the tax landscape and require a different approach to tax planning that may not have been utilized in previous tax years. This creates opportunities for taxpayers to save significantly on their tax liabilities with some tailored tax planning solutions. Always contact your HBK Tax Advisor before implementing any of the strategies outlined in this guide. Our team is ready to assist you in evaluating each of these opportunities within the context of your unique tax position.

AT A GLANCE

KEY 2018 TAX FIGURES & FILING DEADLINES

STANDARD **DEDUCTION** »	
Married Filing Jointly	$24,000
Single	$12,000
Head of Household	$18,000
Married Filing Separately	$12,000

FEDERAL **ESTATE TAX** »
40 percent

GIFT TAX **EXCLUSION** »	
Single	$15,000
Married	$30,000

IRA **CONTRIBUTION** » (Traditional & Roth)
$5,500 with additional $1,000 catch-up over age 50

HSA **CONTRIBUTION** » (Employer & Employee)	
Self Only	$3,450
Family	$6,900

DEADLINES FOR 2018 **INDIVIDUAL & BUSINESS TAX FILINGS** »

TAX TYPE	DUE DATE (For Calendar-Year Entities)
Partnerships (Form 1065) & S Corporations (Form 1120S)	March 15, 2019
Individuals (Form 1040), C Corporations (Form 1120), Foreign Bank and Financial Reporting Form (FBAR) FinCEN Report 114 and Trusts and Estates (Form 1041)	April 15, 2019
Tax-exempt Nonprofit Organizations (Form 990)	May 15, 2019
Filing extensions for Partnerships & S Corporations	September 16, 2019
Filing extensions for Trusts & Estates	October 1, 2019
Filing extensions for Individuals, Foreign Financial Reporting & C Corporations	October 15, 2019
Filing extensions for Tax-exempt Nonprofit Organizations	November 15, 2019

TAX REFORM

Individuals

Under the TCJA, we saw significant changes, such as: an increase to the standard deduction, the elimination of personal exemptions and the elimination of deductions and credits that individuals and businesses have grown to rely on.

Individual Tax Brackets for 2018

The TCJA retained the seven tax bracket system we have been using; however, most of the upper tiers have been increased. Overall, the tax rates for individuals have decreased for the 2018 tax year through tax year 2025.

INDIVIDUAL TAX RATES

RATE	SINGLE	HEAD OF HOUSEHOLD	MARRIED FILING JOINTLY	MARRIED FILING SEPARATELY
10%	$0 to $9,525 TAX OWED 10% of taxable income	$0 to $13,600 TAX OWED 10% of taxable income	$0 to $19,050 TAX OWED 10% of taxable income	$0 to $9,525 TAX OWED 10% of taxable income
12%	$9,525 to $38,700 TAX OWED $952.50 plus 12% of the excess over $9,525	$13,600 to $51,800 TAX OWED $1,360 plus 12% of the excess over $13,600	$19,050 to $77,400 TAX OWED $1,905 plus 12% of the excess over $19,050	$9,525 to $38,700 TAX OWED $952.50 plus 12% of the excess over $9,525
22%	$38,700 to $82,500 TAX OWED $4,453.50 plus 22% of the excess over $38,700	$51,800 to $82,500 TAX OWED $5,944 plus 22% of the excess over $51,800	$77,400 to $165,000 TAX OWED $8,907 plus 22% of the excess over $77,400	$38,700 to $82,500 TAX OWED $4,453.50 plus 22% of the excess over $37,700
24%	$82,500 to $157,500 TAX OWED $14,089.50 plus 24% of the excess over $82,500	$82,500 to $157,500 TAX OWED $12,689 plus 24% of the excess over $82,500	$165,000 to $315,000 TAX OWED $28,179 plus 24% of the excess over $165,000	$82,500 to $157,500 TAX OWED $14,089.50 plus 24% of the excess over $82,500
32%	$157,500 to $200,000 TAX OWED $32,089.50 plus 32% of the excess over $157,500	$157,500 to $200,000 TAX OWED $30,689 plus 32% of the excess over $157,500	$315,000 to $400,000 TAX OWED $64,179 plus 32% of the excess over $315,000	$157,500 to $200,000 TAX OWED $32,089.50 plus 32% of the excess over $157,500
35%	$200,000 to $500,000 TAX OWED $45,689.50 plus 35% of the excess over $200,000	$200,000 to $500,000 TAX OWED $44,289 plus 35% of the excess over $200,000	$400,000 to $600,000 TAX OWED $91,379 plus 35% of the excess over $400,000	$200,000 to $300,000 TAX OWED $45,689.50 plus 35% of the excess over $200,000
35%	$500,000+ TAX OWED $150,689.50 plus 37% of the excess over $500,000	$500,000+ TAX OWED $149,289 plus 37% of the excess over $500,000	$600,000+ TAX OWED $161,379 plus 37% of the excess over $600,000	$300,000+ TAX OWED $80,689.50 plus 37% of the excess over $300,000

Capital Gain and Qualified Dividend Tax Rates

The long-term capital gain and qualified dividend tax rates remain unchanged, with brackets of 0 percent, 15 percent and 20 percent. The bracket amounts remain the same for 2017 and 2018, adjusted for inflation. Remember that short-term capital gains are taxed at regular ordinary income rates.

However, long-term and short-term losses can offset capital gains, a strategy that requires tax planning to reduce short-term and net long-term capital gains.

Standard Deduction and Personal Exemption

Under tax reform, the standard deduction was nearly doubled, and the personal exemption disappeared.

The personal exemption of $4,050 per person has been eliminated for tax years 2018 through 2025.

Itemized Deductions

There are many planning moves that can be taken to help lower your tax bill for this year and beyond. Not every item in this section will apply to you, but we can narrow down the specific actions you can take advantage of and help to create a plan tailored to your tax needs.

The TCJA either eliminates or significantly alters many itemized deductions that individuals have historically relied on. With the increased standard deduction, it is likely that less people will be itemizing their deductions. Taxpayers who itemized deductions in 2017 will find they may need to change their strategies in 2018. That's largely due to the major standard deduction increase, from $6,350 to $12,000 for single filers and $12,700 to $24,000 for married couples filing jointly.

Your ability to itemize may be most affected if you previously relied heavily on the state and local tax deduction, home equity interest deduction, and miscellaneous itemized deductions. These deductions have been suspended, eliminated or minimized in 2018. Itemization may still be best for taxpayers who have a home mortgage and high medical expenses, if they donate to charities and/or they are single taxpayers and have high property or state income taxes. Below are various changes to these areas of itemized deductions taxpayers may have taken in the past:

Miscellaneous Itemized Deductions

All itemized deductions subject to the 2 percent adjusted gross income limitation are eliminated. These deductions include tax preparation fees and investment management fees, although some deductions may still be deductible if they relate to a business.

Charitable Contributions

The adjusted gross income limitation for certain charitable contributions has been increased from 50 percent to 60 percent.

Mortgage Interest

For mortgages entered into after December 15, 2017, the deductible interest is limited to mortgage balances of $750,000. Interest on home equity lines up to $100,000 is no longer deductible after 2017.

State and Local Taxes

The deduction for state and local income or sales tax, personal property, real estate and "other" taxes is limited to $10,000 after 2017.

Medical Expenses

The adjusted gross income limitation is reduced to 7.5 percent for all individuals for tax years 2017 and 2018. After 2018, the limitation will increase to 10 percent.

Additionally, there may be some benefit in bunching your deductions on your personal income tax return if you would like to itemize. This would mean concentrating multiple years of itemized deductions into the year offering you the greatest benefit and can be an effective tax planning strategy. Please contact your HBK Tax Advisor if you believe you could benefit from any of these tax planning opportunities.

Alternative Minimum Tax

The exemption and phase-out amounts for individuals have increased as follows:

	Exemption	Phase-out
Married Filing Separate	$54,700	$500,000
Single Filer	$70,300	$500,000
Married Filing Joint	$109,400	$1,000,000

Another tax-planning strategy is to reduce your AGI. One way to do this is through maximizing your above-the-line deductions. These are expenses you can claim even if you don't itemize. Above-the-line deductions include retirement plan contributions and withdrawals, student loan interest deductions, teacher classroom expenses and health savings account contributions.

Other Individual Changes

Alimony is no longer deductible by the payor spouse, and no longer included in the income of the payee spouse for agreements entered into after December 31, 2018. Agreements entered into prior to this date will likely still be deductible by the payor and included in the income of the payee, unless the agreements are later revised and the revision does not indicate that prior law should apply.

Funds in Section 529 plans can now be used for elementary or secondary public, private, or religious schools, up to $10,000 per beneficiary per year.

The Child Tax Credit has also been expanded, the credit has been doubled to $2,000 for children under 17. It is also made available to high earners because the income threshold under which filers may claim the full credit has been raised to $200,000 for single parents, up from $75,000; and to $400,000 for married couples, up from $110,000. Like the first $1,000 of the child tax credit, $400 of the additional $1,000 also will be refundable, meaning a low- or middle-income family will be able get the money refunded to them if their federal income tax liability nets out at zero.

Healthcare Reform and Taxation

The shared responsibility requirement of the ACA, also known as the individual mandate, has been repealed after December 31, 2018. For the 2018 tax year, the IRS has warned taxpayers that the penalty for not having health insurance will apply unless an exemption is claimed.

LIFE CHANGES THAT IMPACT YEAR-END TAX PLANNING	
• Change in filing status: marriage, divorce, death or head of household status	• College or other tuition
• Birth of a child	• Changes to employment
• Child that has outgrown the “kiddie” tax	• Retirement
• Child who has outgrown the child credit	• Personal bankruptcy
• Casualty losses	• Inheritance
• Changes in medical expenses	• Business success or failure
• Moving/relocating	

HSA and FSA Accounts

2018 CONTRIBUTION AND OUT-OF-POCKET LIMITS FOR HSA AND HIGH-DEDUCTABLE HEALTH PLANS	
HSA Contribution Limit	Self only: $3,450
(Employer + Employee)	Family: $6,900
HSA Catch-Up Contributions (Age 55 or Older)	$1,000
HDHP Minimum Deductibles	Self Only: $1,350 Family: $2,700
HDHP Maximum Out-of-Pocket Amounts (Deductibles, Copayments, and Other Amounts Excluding Premiums)	Self Only: $6,650 Family: $13,300

Individuals and families have two tax advantage options to save for current and future medical expenses for themselves, spouses and qualified dependents. The first is a Health Savings Account or HSA. HSA accounts allow for tax deductible contributions, the interest earned on the account is also tax free and withdrawals from the account are tax free for qualifying medical expenses.

Flexible Spending Accounts or FSAs allow pre-tax contributions and tax free growth much like a HSA account, however FSAs can be used in tandem with any health plan. Additionally, the money saved in an FSA must be used by the end of the calendar year or it is forfeited. Taxpayers should review what type of medical savings plan they take part of to ensure they are receiving the maximum tax benefit possible.

Businesses

The top C corporation tax rate is now a flat 21 percent, down from 35 percent. The TCJA also created a new tax benefit for sole proprietors, partnerships and S corporations in the form of a 20 percent qualified business income deduction.

In addition, bonus depreciation and Section 179 expensing have been expanded. However, the domestic production activities deduction (DPAD) is no longer available this year.

With all of the tax changes, please contact us about exploring new tax planning strategies and be sure to consider each of the following as we enter year end planning for 2018:

Review Your Asset Management Policies

Depreciation is one of first things taxpayers may want to look at when looking for ways to minimize their business tax liability. Bonus depreciation increased from 50 percent to 100 percent for qualified property acquired and placed in service after Sept. 27, 2017. Additionally, section 179 expensing deduction increases to $1,000,000 from $500,000. While accelerated depreciation tax rules affect your current year deduction, remember that changes to these rules have no impact on the total amount you can deduct over the life of an asset. However, you do still have tax-planning opportunities. Consider examining the tax benefits of leasing business equipment instead of buying, depending on the type of lease, you may be able to deduct payments in full as you make them. Additionally, businesses might benefit from a cost segregation study. Please contact your HBK Tax Advisor if you believe these strategies coud benefit your business.

New 20 Percent Deduction

The TCJA created a new business deduction, which may be up to 20 percent of qualified business income. Qualified business income is, in general, ordinary business income and does not include W-2 wages or guaranteed payments. This is calculated on an individual's personal income tax return. How much of a deduction can be taken depends in part on an individual's overall level of taxable income and the type of business. We can help see how you can maximize this deduction for the 2018 tax year.

Meals and Entertainment

A major change under the TCJA was the elimination of the deductibility of all entertainment expenses, with some exceptions. Below is a chart comparing some differences in deductibility between 2017 and 2018:

Expense	2017	2018
Business meals with clients, prospects, referral sources	50%	50%
Events/meals at social or golf clubs	50%	50%**
Meals Provided for Employees by the Employer (ie: meals at staff meetings)	100%	50%
Event tickets (sporting events, theater, etc.)	50%	No deduction
Business Gifts	$25 per person	$25 per person

***50% deduction for business meals at entertainment facilities is permitted under current proposed regulations; however, this may change going forward.*

Automobile Depreciation Deduction Limits

The TCJA substantially increases the deduction limitations for automobiles as follows:

	2017 Limits	2018 Limits
Year #1	$3,160	$10,000
Year #2	$5,100	$16,000
Year #3	$3,050	$9,600
Year #4 & Later	$1,875	$5,760

Like-Kind Exchanges

Like-kind exchanges of personal property, such as automobiles, are no longer permitted. Like-kind exchanges of real estate remain unchanged.

Business Expense Increase

New immediate $1 million section 179 expense amount and phase-out threshold of $2.5 million. Qualified real property is eligible for section 179. Qualified real property includes all qualified improvement property and certain improvements to nonresidential real property.

Bonus Depreciation

There is now 100 percent bonus depreciation for property placed into service after September 27, 2017 and before January 1, 2023. After 2022, the percentage decreases by 20 percent each subsequent year until zero.

Year Placed in Service	Bonus %
After September 27, 2017 and before January 1, 2023	100%
2023	80%
2024	60%
2025	40%
2026	20%

Business Losses

Business losses, for noncorporate taxpayers, are now limited to $500,000 (married filing jointly) or $250,000 (single). Any excess is carried forward as a net operating loss (NOL). Under previous law, NOLs could be carried back two years and forward 20 to eliminate 100 percent of a taxpayer's regular taxable income in a single year. Section 172 was amended by the TCJA to restrict NOLs. Under current law, NOLs generated after December 31, 2017, can only be carried forward and are limited to 80 percent of taxable income. Taxpayers with NOLs generated prior to December 31, 2017, should consult with their Tax Advisor for assistance with applying NOL deductions and carryover rules while projecting taxable income.

Cash Method of Accounting

Taxpayers with annual gross receipts of $25 million (indexed for inflation) or less for the prior three taxable years are permitted to use the cash method of accounting.

Opportunity Zones

The Internal Revenue Service has just released its first installment of the much anticipated proposed rules relating to Qualified Opportunity Zones (QOZ). These proposed rules would govern investments made in "opportunity zones" that can provide various tax advantages to investors. Opportunity zones are underdeveloped areas that have been certified by the government allowing for special tax breaks in an attempt to promote investment in these areas. Capital gains placed in certified opportunities zone funds will not be taxed through the 2026 tax year, or until the time in which the investment is sold, whichever occurs first. Gains from these investments are "permanently" shielded from taxes if the investments are held for 10 years, and initial investments in qualified opportunity funds will be discounted by up to 15 percent after 7 years.

The proposed rules state that only capital gains are eligible for this preferential tax treatments; however, the opportunity to invest in these qualified opportunity funds is available to individual taxpayers, business entities, REITs and estates and trusts. Additionally, investors will have 180 days from the sale of a capital asset to place the proceeds from those sales in opportunity funds to qualify for these tax breaks. The IRS also stated in these proposed rules that funds have 30 months from when the money is placed in them to perform the required renovations.

While these rules have provided some of the answers to questions on the minds of taxpayers, some still remain unanswered. The Treasury is expected to announce additional guidance on opportunities zones before the end of the year. As this is a developing area, we will be working to keep you up to date on these developments. These additional anticipated proposed rules are set to be made official sometime before the end of the year. If you believe investing in an opportunity zone is for you please contact your HBK Tax Advisor.

Additional Resources

At HBK, we can determine how best to maximize your tax savings for 2018 and beyond. We are available to assist you through each step of this process and we will keep you apprised of any legislative changes impacting your tax circumstance in real time. Please don't hesitate to contact us with questions, concerns or ideas you have about how to reduce your taxes.

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