



COOK MARTIN POULSON, P.C.

*Certified Public Accountants*



## TAX PLANNER 2018

One of the most effective ways Cook Martin Poulson helps you keep what you earn is by minimizing your tax bill. We are your advocate in times of uncertainty and continuous change. We are committed to providing you with the most current and proactive tax services possible.

# KEY HIGHLIGHTS OF THE TAX CUTS & JOBS ACT OF 2017

- Reform of individual tax rates
- Increase in standard deduction
- Elimination of personal exemption deduction
- Deduction for Qualified Business Income
- Deductions for state and local taxes capped at \$10,000
- Estate, gift and Generation Skipping Transfer tax exemption increased to \$11.18 million
- Alternative Minimum Tax exemption increased and repeals for corporations
- Additional Medicare Tax on Wages and Self-Employment Income over \$250K
- Corporate tax rate reduction
- Increased bonus depreciation
- Increase in Section 179 depreciation deduction
- Net Operating Losses (NOLs) no longer able to be carried back and limited to 80% of taxable income
- Section 1031 "like-kind" exchanges limited to exchanges of real property

SUMMARY	2018
Marginal Federal Income Tax Rates (\$500,000 Single and \$600,000 MFJ)*	37%
Tax on dividends if you're below the \$479,000 MFJ bracket*	15.0%
Tax on dividends if you're in the \$479,000 bracket*	23.8%
Capital Gain Rates if you're in the 10% and 12% brackets	0.0%
Capital Gain Rates if you're in the 22%, 24%, 32%, and 35% brackets	15.0%
Capital Gain Rates if you're in the 37% bracket	23.8%
Medicare Tax on Net Investment Income Married over \$250,000 AGI	3.8%
Addtl Medicare Tax on Wages and Self-Employment Income over \$250K	0.9%
Social Security Payroll Tax	6.2%
Self-Employment Tax	15.3%
100% Bonus Depreciation New and Used Business Equipment	YES
IRC Section 179 Expensing Limit	1,000,000
Estate Tax Rates	40%
Estate Exemption	11,180,000
Annual Gifting Exclusion	15,000

## WAGES

- Contribute to employer sponsored retirement plans
- Employer sponsored Health Savings Accounts \$6,850 Family \$3,450 Individual catch-up 55 or over \$1,000\*
- Utilize Flex-Spending Accounts \$2,650 limit
- Have employers reimburse expenses rather than pay wages
- Pay appropriate officer wages in S-Corps
- Include officer health insurance on W-2
- Accelerate or defer year-end bonuses

## CAPITAL GAIN

- 20% Capital Gain Rate for taxpayers with taxable income over \$425,800 Single or \$479,000 MFJ\*
- Installment sales
- Like-Kind Exchanges (IRC Sec 1031)(Real Property Assets or any other Real Property qualifies, homes don't qualify, must be real property held in trade or business or investment property)
- Use combination of installment sales and Like-Kind Exchange
- Subject to 3.8% Medicare Tax if AGI over \$250,000 MFJ, \$200,000 Single
- Capital losses limited to offset capital gains or \$3,000 allowed against other income categories
- Harvest capital losses from other investment to offset gains
- Non-Business Bad Debts are a capital loss (must document debt and collection efforts)
- Consider small business investment losses for corporations under IRC Sec 1244 (ordinary loss)

## INTEREST AND DIVIDENDS

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- Municipal bond interest not taxed at federal level (Utah and participating states not taxed at state level)
- Qualified dividends taxed at long-term capital gain rates
- Subject to 3.8% Medicare Tax if over AGI \$250,000 MFJ \$200,000 Single

## RETIREMENT DISTRIBUTIONS

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- Roth Conversions to offset NOLs or maximize tax brackets. This may also be done to reduce future Required Minimum Distributions (RMD's), or to reduce a taxable estate.
- Consider donating Required Minimum Distributions to charity to avoid including in AGI and causing Social Security to be taxed (this is available only to individuals age 70½ or older)
- In-Plan 401(k) Roth rollover (plan must allow in plan document, will pay ordinary income tax but no penalty)
- Consider 401(k) loans in lieu of taxable distributions
- Consider exceptions to the 10% early withdrawal penalty

## BUSINESS INCOME

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- Proper basis of accounting and inventory being used (note limits changed to \$25,000,000 under new tax law)
- Accelerate/delay income or prepay/defer expenses depending on tax situation
- IRC Section 179 deduction \$1,000,000 for **2017** purchase threshold of \$2,500,000 limited to income (cannot create a loss and cannot be revoked 2014 and onward)
- 100% Bonus depreciation on new and used assets (no limit and can create a loss)
- Automobile depreciation limits luxury auto limits \$10,000 Trucks and Vans Gross Vehicle Weight 6,000 lbs or less
- Health Insurance and Health Reimbursement Plans (Sole Props pay spouse and deduct on Sch C)

## RETIREMENT PLANS

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- Simple IRAs \$12,500 plus \$3,000 catch-up if age 50 or over\*
- Safe-harbor 401(k) \$18,500 plus \$6,000 catch-up if age 50 or over\*
- Total contribution limit \$55,000 plus \$6,000 catch-up if age 50 or over\*
- Defined Benefit contribution limit \$200,000\*
- Traditional vs. Roth IRA contributions \$5,500 plus \$1,000 catch-up for 50 and over\*

## ORDINARY AND NECESSARY BUSINESS EXPENSES

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- Automobile actual vs. mileage 54.5 cents per mile for 2018 (keep mileage logs)\*
- Promotional expenses paid to non-profits claimed as advertising rather than contributions
- Paying children through business for work performed
- Cell phone, home internet, office expenses (if used for business)
- New Home office deduction of \$5 per sq. ft., up to 300 sq. ft. (up to \$1,500, Sch. A unreimbursement no longer deductible)
- Travel and entertainment expenses (document properly, entertainment no longer deductible)
- Lodging Per Diem High Cost \$284, Low Cost \$191 Meals High Cost \$68 Low Cost \$57\*
- Self-Employed cannot use Lodging Per Diem but can use Meal Per Diem
- Accountable reimbursement plans
- Pay rent to LLC to avoid SE tax (be careful not to overpay and create Net Investment Income subject to 3.8% Medicare tax)
- Accurate accounting system in order to capture all deductions (Online Quickbooks is a great option)

## HOBBY LOSS RULES

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- Profit motive, increase in investment value, advice of professionals
- Consider S-Corporation or LLC business structure to save SE tax

## OIL AND GAS INVESTMENTS

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- Deduct up to 95% of investment made (look at amortization for AMT)
- Will offset all buckets of income
- Passive income after initial year
- Percentage depletion deduction

## BUSINESS TAX CREDITS

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- Research and development credits
- New markets tax credit (investments in community development entities)
- New small employer pension plan setup credit (50% of costs up to \$500)
- Small Employer Health Insurance Credit (Must be enrolled in State SHOP exchange)
- Work Opportunity Credit (for hiring qualified veterans up to \$9,600)
- Employer-Paid FICA on Tips (for amounts paid on tips above \$5.15 per hour)
- Enterprise Zone Tax Credit (Utah only)
- Opportunity Zone

## RENTS AND ROYALTIES

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- Passive loss rules do not allow passive losses to offset non-passive ordinary income
- Active Participation in Real Estate allows a \$25,000 loss against ordinary income phased out \$125,000 to \$150,000
- Cost Segregation Studies used to accelerate depreciation from 39 year class lives to 5, 7, & 15 year class lives
- Energy efficient improvements for insulation, mechanical, and lighting (IRC 179D studies)
- At-Risk, Basis Rules
- Cannot claim IRC Section 179 deduction but can claim bonus depreciation
- Repairs versus Capital Improvements

## PERSONAL ITEMIZED DEDUCTIONS

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- Consider lumping itemized deduction into one year if close to the standard deduction each year

## MEDICAL EXPENSES

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- Health Insurance (If does not qualify for Self-Employment)
- Consider paying with credit cards to lump installment payment plans in current year
- Medical travel and lodging
- Auto rate 18 Cents per mile\*
- Phase-out is 7.5% of AGI for 2018
- Consider setting up a IRC Section 105 plan if Self-Employed

## TAXES

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- Consider using sales tax if purchased large ticket items (vehicles, home improvements)
- Prepay state income tax before December 31 (Beware of AMT and SALT cap)
- Property taxes on investment property

## INTEREST

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- Mortgage insurance premiums are not deductible for 2018
- Mortgage Interest deduction limited to mortgages under \$750,000 (for loans closed on or after 12/16/17)
- Home Equity Mortgage Interest deduction limited to mortgages under \$100,000 (for buying, building, or substantial improvements only)
- Investment Interest deductions limited to investment income
- Consider harvesting capital gains to utilize investment interest expense
- Investment Interest on flow-through entities deductible on Schedule E

## CHARITABLE CONTRIBUTIONS

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- Contribute appreciated capital gain assets and receive FMV deduction (limited to 30% of AGI)
- Contribute RMD directly to charity and avoid including RMD in AGI on income tax return
- Contribute to a Donor Advised Fund and get the deduction now designate charity and amounts later
- Pre-pay for missions
- Donations over \$5,000 required to have an appraisal if other than cash or stocks
- Auto Rate 14 Cents per mile

## CASUALTY LOSS

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- Fraud deductions offset ordinary income and can create a NOL
- Damaged personal property has a 10% AGI phase out (and \$100 threshold per occurrence)

## PERSONAL TAX CREDITS

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- 10% Energy efficient tax credits for biomass stoves, HVAC, insulation, roofs, water heaters, windows & doors (\$500 lifetime)
- 30% Energy efficient tax credits for geothermal heat pumps, small wind mills (residential) and solar systems (non-refundable)
- Adoption tax credit
- Earned income credit
- Dependent Care credit
- Child Tax Credit(s) (increased to \$2000/child, increased phaseouts)
- Education Credits

## ALTERNATIVE MINIMUM TAX

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- Income and expense timing to minimize AMT
- State Income tax timing
- Consider accelerating deductions or income to average rates between years

## ESTATE PLANNING ISSUES

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- Annual gift exclusion \$15,000 per person for 2018\*
- Estate exclusion \$11,180,000 for 2018
- Unused Estate exclusion is portable to surviving spouse if an estate tax return (form 706) is filed
- Estate tax rate is 40% for 2013 and later years
- 529 Plan contribution for children and grandkids
- Irrevocable life insurance trust
- Updating wills, trusts, personal representatives, medical directives, durable power of attorneys
- Consider defective grantor trusts to freeze appreciating assets
- Is the trust (LLC) properly funded (titled)?
- Crummey letters issued for gifts to trusts
- Consider family limited partnerships or LLCs for gifting
- Certified business appraisals required for estate returns or gifting
- Consider naming individuals as IRA or retirement plan beneficiaries instead of a trust or estate

## GENERAL ISSUES

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- Buy/Sell agreements current or updated for valuation changes
- Corporate documents current and up-to-date (corporate books, minutes, shareholder notes)
- Lease documents current
- Employment contracts current
- Plan for business succession or transactions (basis step up issues on retirements or buyouts)
- Retirement planning

\* Indicates that these amounts are indexed for inflation.

# QUALIFIED BUSINESS INCOME (QBI)

## INCLUDES:

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- Ordinary Business Income
  - Schedule C
  - Schedule F
  - 1065
  - 1120S
- Rental Income
  - Schedule E

*Income can be Passive or Active*

## EXCLUDES:

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- Interest Income
- Dividend Income
- §1231 Gains (sale of property used in a trade or business)
- Income from specified services (unless under the threshold amounts)
- Only domestic trades or businesses qualify

## PHASEOUT THRESHOLDS (TAXABLE INCOME):

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	Married Filing Joint	Single
Phaseout Begins	\$315,000	\$157,500
Phaseout Ends	\$415,000	\$207,500

## DEDUCTION LIMITATIONS (ONLY APPLICABLE IF THE INCOME IS OVER THE PHASEOUT THRESHOLDS ABOVE):

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- Limited to the Lesser of:
  - 20% of Net QBI (on a per-company basis), or
  - Taxable income
- Limited to the Greater of:
  - 50% of allocable W-2 wages
  - 25% of allocable wages, plus 2.5% of the unadjusted basis of qualified property owned by the business

## QUALIFIED PROPERTY IS DEFINED AS:

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- Depreciable property used in the trade or business.
- Only eligible if the asset was placed in service 10 or fewer years ago, or if the property is still within its depreciable class life.
- In the case of real estate, it does NOT include the cost of land.

## OTHER USEFUL INFORMATION:

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- QBI does not reduce AGI or SE tax.
- A QBI loss will be carried forward to offset potential positive QBI in a future year.

## FEDERAL INDIVIDUAL INCOME TAX RATES – 2018 TAX RATES

### MARRIED FILING JOINT

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2018			
Married Filing Joint			
If Taxable Income is:		Ordinary	Capital Gains
-	19,050	10.0%	0%
19,051	77,400	12.0%	0%
77,401	165,000	22.0%	15%
165,001	315,000	24.0%	15%
315,001	400,000	32.0%	15%
400,001	600,000	35.0%	15% up to \$480,050 20% over \$480,050
600,001	Over	37.0%	20%
Remember .9% or 3.8% Tax over \$250k			

### SINGLE

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2018			
Single			
If Taxable Income is:		Ordinary	Capital Gains
-	9,525	10.0%	0%
9,526	38,700	12.0%	0%
38,701	82,500	22.0%	15%
82,501	157,500	24.0%	15%
157,501	200,000	32.0%	15%
200,001	500,000	35.0%	15% up to \$426,700 20% over \$426,700
500,001	Over	37.0%	20%
Remember .9% or 3.8% Tax over \$200k			

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