Brixey & Meyer
STRATEGIC ACCOUNTANTS
& BUSINESS ADVISORS

2018 YEAR END TAX NEWSLETTER

The reality of tax reform and its effects on current year income and deductions will soon be evident as we move into the 2018 tax filing season. Though questions remain, there are steps which can be taken prior to year-end to take full advantage of the new provisions and avoid some of the pitfalls.

For Individuals

- Due to the significant changes in the itemized deduction area, taxpayers should look at their estimated allowable itemized deductions for 2018 and determine if they would be better off bunching certain deductions.
    - Charitable contributions. A taxpayer might want to bunch contributions into alternate years, allowing them to itemize with maximum benefit one year and possibly take the standard deduction in the alternate year. Contributions, cash or noncash, could be made directly to the charitable organization or a donor advised fund could be set up, wherein your contribution to the fund is claimed in the year made, while the distributions to charities could be spread over several years.
    - Medical expenses. The threshold for deductible medical expenses is 7.5% in 2018, but increases to 10% for 2019. Move medical expenses to 2018 to the extent possible, if you might receive some benefit from itemizing in 2018.
- Maximize your contributions to 401(k) plans. The annual limit for 2018 is $18,500, but those over 50 can defer an additional $6,000 for 2018. These must be made by the end of the plan year.
- Maximize your contributions to Health Savings Accounts. You are eligible to make a full year's worth of deductible contributions for 2018, even if you first became eligible on December 1, 2018. The maximum contribution for 2018 is $3,450 for those with individual coverage and $6,900 for those with family coverage. If you are 55 or older, you may contribute an additional $1,000.
- The annual gift tax exclusion for 2018 is $15,000, an increase of $1,000 from 2017. In addition, the federal estate tax exemption for 2018 is $11.18 million, meaning that fewer people will be required to file estate tax returns.
- Be sure to take any required minimum distributions from your IRA or 401(k) plan if you have reached age 70 ½. Failure to do so can result in a penalty of 50% of the amount not withdrawn. Consider making a direct transfer to a charity from your IRA, thereby fulfilling your required minimum distribution requirement, but avoiding the tax thereon.
- Review your estimated tax payments and withholding for the year to make sure that you are not in an under withheld, and increase your estimated payment or your withholding, if necessary. Withholding tables were reduced in February 2018, so you may not have as much tax withheld as expected.
- Consider maximizing contributions to 529 plans, distributions from which may now be used toward elementary and secondary school tuition. There is no Federal deduction, but the funds may grow tax free and distributions are not taxed as long as the funds are used for qualified expenses. Some states, Ohio being one, also allow a deduction for a limited amount of these contributions.

Brixey & Meyer
STRATEGIC ACCOUNTANTS & BUSINESS ADVISORS

2018 YEAR END TAX NEWSLETTER

For Business Owners

- Businesses should consider making expenditures to take advantage of the increased limits for expensing business property under Section 179. The maximum deduction was increased from $500,000 to $1,000,000, with an overall limit of $2,500,000. The definition of Section 179 property was also expanded to include certain qualified improvement property, as well as roofs and HVAC, fire protection, alarm and security systems. These changes apply to property placed in service after December 31, 2017.
- Bonus depreciation was also changed to 100% for property placed in service after September 27, 2017 and property eligible was expanded to include used property under certain conditions. Eliminated from eligibility under the new law was qualified improvement property placed in service after December 31, 2017.
- Also new under tax reform is the 20 percent deduction for pass through businesses. The issues in this area can be complicated and business owners should be discussing ways to maximize this deduction for 2018 with their tax advisors. This provision is an important factor in considering whether a business should be a C corporation or pass through entity.
- The new partnership audit rules are also in effect for 2018 and certain actions should be taken as soon as possible with respect to designation of a partnership representative, electing out of the rules for smaller partnerships or pushing liability for audit adjustments out to the partners.
- $25 million revenue exception – The gross receipts threshold that exempts certain taxpayers (C corporations and partnerships with C corporation partners) from the requirement to use the accrual method of accounting was increased to $25 million. So, an accrual basis taxpayer can consider converting to the cash basis if receipts are less than $25 million. Also, taxpayers normally subject to Unicap are now exempt if they can meet the gross receipts test of $25 million. A Form 3115, accounting method change, will be required to adopt $25 million revenue exception.