

TAX NEWS & TIPS

YEAR END 2018

What Will Social Security Recipients' Medicare Premiums Be in 2019?

The Centers for Medicare & Medicaid Services announced that most people will pay \$135.50 per month for Medicare Part B in 2019, up slightly from \$134 per month in 2018.

A small group of Medicare beneficiaries (about 3.5%) will pay less because the cost-of-living increase in their Social Security benefits is not large enough to cover the full premium increase. The "hold-harmless provision" prevents enrollees' annual increase in Medicare premiums from exceeding their cost-of-living increase in Social Security benefits if their premiums are automatically deducted from their Social Security payments. Social Security benefits are increasing by 2.8% in 2019, which will cover the increase in premiums for most people.

Premiums are increased for higher-income beneficiaries – those with adjusted gross income plus tax-exempt interest income of more than \$85,000 if single or \$170,000 if married filing jointly. These beneficiaries already pay a high-income surcharge, but a new surcharge tier will kick in for 2019 for people with the highest incomes. Overall monthly premiums for higher-income beneficiaries will range from \$189.60 to \$460.50 per person, depending on income. **What you will pay for Medicare in 2019:**

Income (adjusted gross income plus tax-exempt interest income)						
Single Tax Return (or)	\$85,000 or Less	\$85,001 to \$107,000	\$107,001 to \$133,500	\$133,501 to \$160,000	\$160,001 to \$499,999	\$500,000 or More
Married Filing Jointly	\$170,000 or Less	\$170,001 to \$214,000	\$214,001 to \$267,000	\$267,001 to \$320,000	\$320,001 to \$749,999	\$750,000 or More
(then) Monthly Part B Premium (Per Person)	\$135.50 (may be less if covered by the hold-harmless provision)	\$189.60	\$270.90	\$352.20	\$433.40	\$460.50

Got Everything We Need?

Here is a list of frequently missed items. Check these against your list.



Child Care Expenses.

I need the full name, address, telephone number, tax ID number of your care providers and the total paid per child.



Estimated Federal Tax Payments.

Find the date and amount for payments. April 15, 2018, June 15, 2018, September 15, 2018 and January 15, 2019. A Federal January 2018 payment would have been claimed on your 2017 return.



Sales of Property.

The most important thing is the Final Settlement Statement. Include a list of home improvements in all prior years since purchase.



College Tuition.

Form 1098-T lists tuition paid. These forms are mailed to the student. Make sure that the "student" watches for these forms and gives them to you. I need these forms as well as details on the courses, all education-related expenses, when each item was paid and who the "student" was.



Sales of Stock.

Form 1099-B shows sale price. If this form does not show the original purchase

information you will need to provide this.



New Tax Rules On Pass-Through Entities.

Schedule K-1 from partnerships and S-Corps always seem to arrive late. Don't worry. We can do the rest of your return and be ready to finish when the elusive K-1 arrives.



Social Security Benefits.

Look for Form 1099-SSA. We must report the gross amount and not just your net monthly benefit. Your Medicare Premiums listed on the Form may also get you a medical deduction.



Employees – Last Pay Stub.

Your W-2 is critical, but your last pay stub may reveal tax deductions that don't usually show up anywhere else.



Special Accounts. Do you contribute to an IRA, Roth IRA or Health Savings Account? These and others can affect your taxes. Make sure I have all 1099s and information on contribution amounts and dates.



Complex Transactions.

Please call if you have a foreclosure, sale or exchange of real estate, casualties such as theft or natural disaster.

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Myth vs. Truth

Myth:

I will pay less taxes for 2018...
guaranteed!

Truth:

Many people will most likely pay less taxes, but not everyone.

Yes, rates for almost all the individual tax brackets have been lowered and the Alternative Minimum Tax (AMT) exemption has increased, but unfortunately, that doesn't mean that everyone will pay less taxes. The deductions that caused a high-income taxpayer to pay AMT are now eliminated, so some people will pay more in regular taxes for 2018 than in 2017, while paying little or no AMT. Personal exemptions have also been eliminated in exchange for a larger child tax credit which disappears when a dependent reaches age 17.

Taxpayers who itemize will be limited to a maximum deduction of \$10,000 on their combined state and local income taxes, property taxes

and personal property taxes. These are examples of how our complex tax system may end up taking more money from you than in prior years.

Myth:

State Tax Returns won't be affected.

Truth:

Many states that have an income tax often use federal income tax numbers to some extent.

Many people believe that the tax reform won't have any influence over their state's income tax code, but that's not true. The truth is that several states copy federal tax system characteristics and use it as their own or use the federal return numbers as a jumping off point.

Other states do not conform to federal tax characteristics.

Myth:

Tax reform will be bad for seniors.

Truth:

Retirees may be the most concerned about what tax reform will mean for them.

Proposed reforms will not change the way Social Security and investment income are taxed currently.

Many retirees may benefit from the doubling of the standard deduction to \$24,000 for married couples filing jointly and \$12,000 for single filers.

Myth:

The IRS will call you if they detect an error on your tax return.

Truth:

The IRS initiates most contacts through regular mail delivered by the United States Postal Service.

However, there are special circumstances in which the IRS will call or come to a home or business, such as when a taxpayer has an overdue tax bill, to secure a delinquent tax return or a delinquent employment tax payment, or to tour a business as part of an audit or during criminal investigations.

Even then, taxpayers will generally first receive several letters (called "notices") from the IRS in the mail.

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☛ **Form 1098:** Reports mortgage interest paid to a bank, savings & loan or credit union. These forms may also report real estate taxes (if payments are escrowed by the lender).

☛ **Other Income:** Look for 1099s of state tax refunds, unemployment income, prizes or gambling winnings or rents that you collect. Read each one carefully and keep them with all your other tax documents.

☛ **Your Records:** Review records for possible income or deductions. Add up medical expenses and any taxes paid. If you recall paying a deductible expense but don't have a receipt, jot it down and we will discuss before I prepare your return. Charitable contributions are different – you must have receipts, or your deduction could be challenged and denied! If you are missing a receipt contact the charity to see if you can get the document needed.

Start now. Make a list of any items that you are missing. Also write down questions you might have for me.

The New 20% Deduction For Small Business Owners

(Pass-through Entities)

If your business is a sole proprietorship, LLC, partnership or S-Corporation, you are likely eligible for this deduction.

If you own a small business and your total income from all sources is:

- less than \$315,000 for married couples filing a joint tax return (*or*)
- under \$157,500 for all other taxpayers

(then) you will get a deduction of 20% of your business's taxable profit.

Happy New Year!

*May 2019 bring peace, health
and prosperity to both you
and your family.*

Roth and Traditional IRA Contributions

Limits for 2018 remain the same as in 2017 at \$5,500 with an additional \$1,000 catch-up for those age 50 and older.

Retirement Plan Contributions

The limit on contributions to 401(k), 403(b) and most 457 Plans for 2018 increased over 2017 by \$500 to \$18,500. If you are age 50 or older, then additional catch-up contributions are allowed up to \$6,000.

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☐ Re-align Your Portfolio

Many taxpayers have taken gains (or losses) on investments up to this point in 2018. The markets have become increasingly volatile and by selling some losing investments to offset the taxable gains (or selling investments with gains to offset losses – called “harvesting”) you may also reduce your risk to further downturns in the markets. Remember, if you have more losses than gains the IRS will allow you to take up to \$3,000 of net losses to reduce your income.

☐ Increase or Accelerate Your Charitable Contributions

The joys of giving can also help you as your donations to charitable organizations may count as tax deductible expenses! Make sure that all contributions are made by December 31 and that a “Thank You” letter or receipt of your gift is included in your tax documents.

☐ Make State Tax Estimates By December 31, 2018

Most of these estimated payments are not due until January 2019 but if you make the payment in late 2018 you could increase the deduction on your 2018 tax return. If the total of your state and local income taxes, real and personal property taxes will approach or exceed the new \$10,000 limit, please contact me to discuss this early payment option.

☐ Other Deductions

Medical expenses such as hospital, doctor bills and prescriptions can create sizable itemized deductions. Look for any balances still owed on medical related bills and consider paying them before the end of 2018.

☐ 529 Plan - Expanded Uses

Originally intended to help parents save for their child’s future college tuition, a 529 can now be used to pay for up to \$10,000 of primary or secondary education per year. These funds may also be used for private or religious schools.

☐ Moving Expenses Are No Longer Deductible

Under previous tax law, an individual who relocated for their job could deduct any related expenses, including movers, gas, and more. This deduction is no

longer available other than for certain military personnel.

☐ Penalties For Not Having Health Insurance Have Been Eliminated... Beginning In 2019

Under the Affordable Care Act, any individual who was not consistently medically-insured throughout the tax year was penalized. This penalty has been eliminated beginning in 2019.

☐ Beware Of Scammers Posing As The IRS

Note that the IRS does not:

Demand that you use a specific payment method, such as a prepaid debit card, gift card or wire transfer. The IRS will not ask for your debit or credit card numbers over the phone.

Demand that you pay taxes without the opportunity to question or appeal the amount they say you owe. Generally, the IRS will first mail you a bill if you owe any taxes.

Threaten to bring in local police, immigration officers or other law-enforcement to have you arrested for not paying. The IRS also cannot revoke your driver’s license, business licenses, or immigration status. Threats like these are common tactics scam artists use to trick victims into buying into their schemes.

☐ Social Security Increases & Medicare Premiums

Social Security Benefits are increasing for 2019. Americans who collect Social Security are expected to receive a 2.8% increase in their monthly payouts in 2019. This will mark the biggest increase in seven years. The extra benefits kick in on Jan. 1. Annual increases in Social Security are determined every year based on changes in a component of the consumer price index. Social Security recipients got a 2% cost-of-living adjustment in 2018 and 0.3% in 2017. These annual increases are meant to keep up with inflation.

☐ Medicare Deductibles

Deductibles will also go up in 2019. The deductible for Medicare Part A, which covers hospital services, will increase from \$1,340 in 2018 to \$1,364 in 2019. The deductible for Medicare Part B, which covers physician services and other outpatient services, will see a mild bump from \$183 to \$185.

New Increased Credit & Expanded Income Eligibility!

Child Tax Credit. A credit up to **\$2,000** is available for each qualifying child under age 17. The credit is now expanded with the full \$2,000 available for married couples with up to \$400,000 adjusted gross income or up to \$200,000 for all other filing statuses. The tax reform bill also includes a nonrefundable \$500 “family credit” for other dependents. Examples might include an aging parent who depends on you for care or a child whose support you provide but is 17 years old or older.

College Education. Two credits are still available. The American Opportunity Tax Credit can reduce your tax bill by up to \$2,500 per eligible student. The adjusted gross income (AGI) of the person claiming the credit has been expanded to \$80,000 or less for single filers or \$160,000 or less for married couples filing jointly. A partial credit may be available for people whose income exceeds these limits but is less than \$90,000 (single) or \$180,000 (joint). These are known as the “phaseout” limits, above which the ability to take the credit phases out entirely. The Lifetime Learning Credit has a limit of \$2,000 per eligible student. The AGI limits for the full credit are \$56,000 for single taxpayers and \$112,000 for married couples filing jointly and the phaseout limits are \$66,000 and \$132,000, respectively.

0% Capital Gains Rate! The long-term capital gains rate is available to all taxpayers in the 10% and 12% tax brackets. Married taxpayers qualify for the 0% capital gains rate if their taxable income is \$77,200 or less, for single taxpayers \$38,600 or less.

Tax Free Gains Still Available on Home Sales. Married couples can exclude up to \$500,000 in gain from their income on the sale of their home, for single taxpayers the maximum exclusion is \$250,000. You must own and live in the home for at least two of the five years prior to the home sale.

April 15, 2019 Is Just Around the Corner

Most tax records will show up in the mail or online in January. Collecting all your tax related documents is important so that we report a complete and accurate return.

The IRS also gets copies of many of these documents and must match your tax return to their records.

Let's review what you should be looking for...

☛ **W-2s:** Read them carefully. Contact your employer if there is a discrepancy or if you don't receive them by the end of January.

☛ **1099s:** You should receive 1099-INT or 1099-DIV forms for any accounts that pay interest or dividends. Even tax-exempt interest must be reported.

IMPORTANT: "Corrected" forms are always a possibility. Be alert for such announcements.

☛ **1095-A, 1095-B & 1095-C:** You will receive a 1095-A if you purchased Health Care through the Health Insurance Marketplace and had part of your premiums offset by the Advance Payments of Premium Tax Credit. You

will receive a 1095-B or 1095-C for health insurance purchased or provided by your employer on company sponsored insurance plans.

☛ **Other 1099s:** Real estate sales are reported on 1099-S. Stock sales on 1099-B or Consolidated 1099. Pension, 401K and IRA distributions are reported on 1099-R. Pay special attention to forms 1099-A and 1099-C. These report foreclosures and debt consolidations or debt cancellations which may or may not result in taxable income. We need to see them to correctly prepare your return.

See "April 15, 2019" on page 2

ATA INC. Accounting & Tax Associates of Rochester Inc.
1700 N. Broadway, Suite 106 • Rochester, MN 55906

Your Tax Calendar

Dec 31 - A check mailed today counts for 2018. Last chance for deductions.

State estimated taxes paid today may be deductible on your 2018 Federal Return (subject to new \$10,000 state & local tax limitations).

Jan 15 - 4th Quarter estimated tax payments due.

Jan 31 - W-2s and 1099s due to recipients.

Feb 28 - W-2s and 1099s due to IRS.

Apr 15 - 2018 Tax Returns due without extensions.

Call anytime if you have questions.

Tax Tips For You.. Now!

Required Minimum Distributions

Once you reach age 70½, you're generally required to start taking required minimum distributions (RMDs) from Traditional IRAs and employer-sponsored retirement plans (special rules apply if you're still working and participating in your employer's retirement plan) and even some inherited Roth accounts. You must make the required withdrawals by the date required – by the end of the year for most individuals – or

a 50% penalty tax applies. Regular Roth IRA accounts do not require a minimum required distribution (RMD).

You'll be able to make qualified charitable contributions (QCDs) of up to \$100,000 from an IRA transferred directly to a qualified charity if you're 70½ or older. Such distributions may be excluded from income and count toward satisfying any RMDs you would otherwise have to receive from your IRA.

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