Tax Planning

With

Tax Code Reforms

What you need to know and how to take advantage of the changes

A Publication of

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TABLE OF CONTENTS

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Foreword

The Tax Cuts and Jobs Act (Sec. 199A) passed in 2017 and took effect starting with the 2018 tax year. As the first major tax reform in over 30 years, *it has effected nearly every American household and business*.

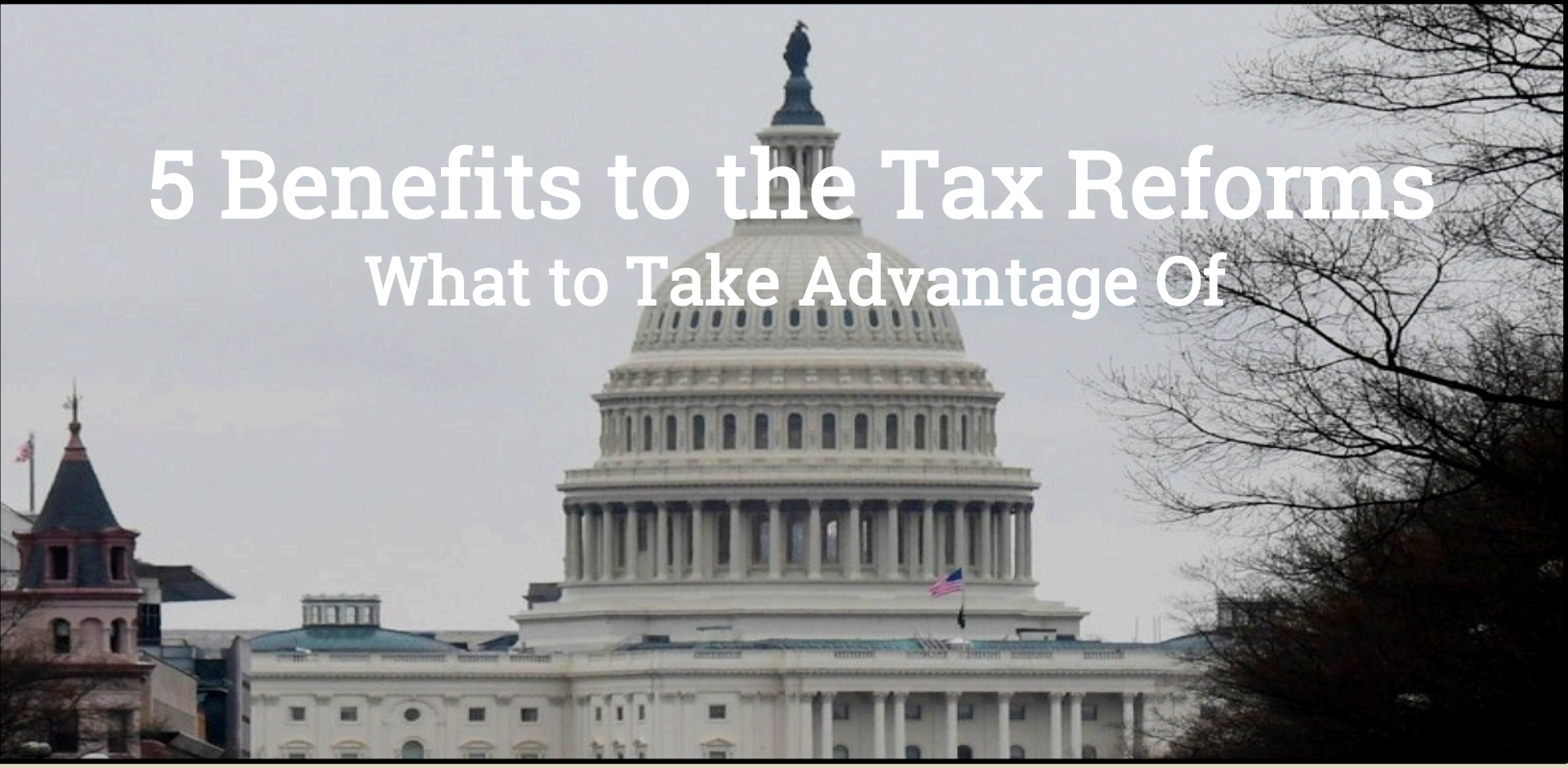
Some of the changes may benefit you, others may present more challenges.

Here we review the key ways your tax planning should shift to protect, and grow, your legacy.

CHAPTER

1

Major Changes that Can Lead to Major Benefits



5 Benefits to the Tax Reforms

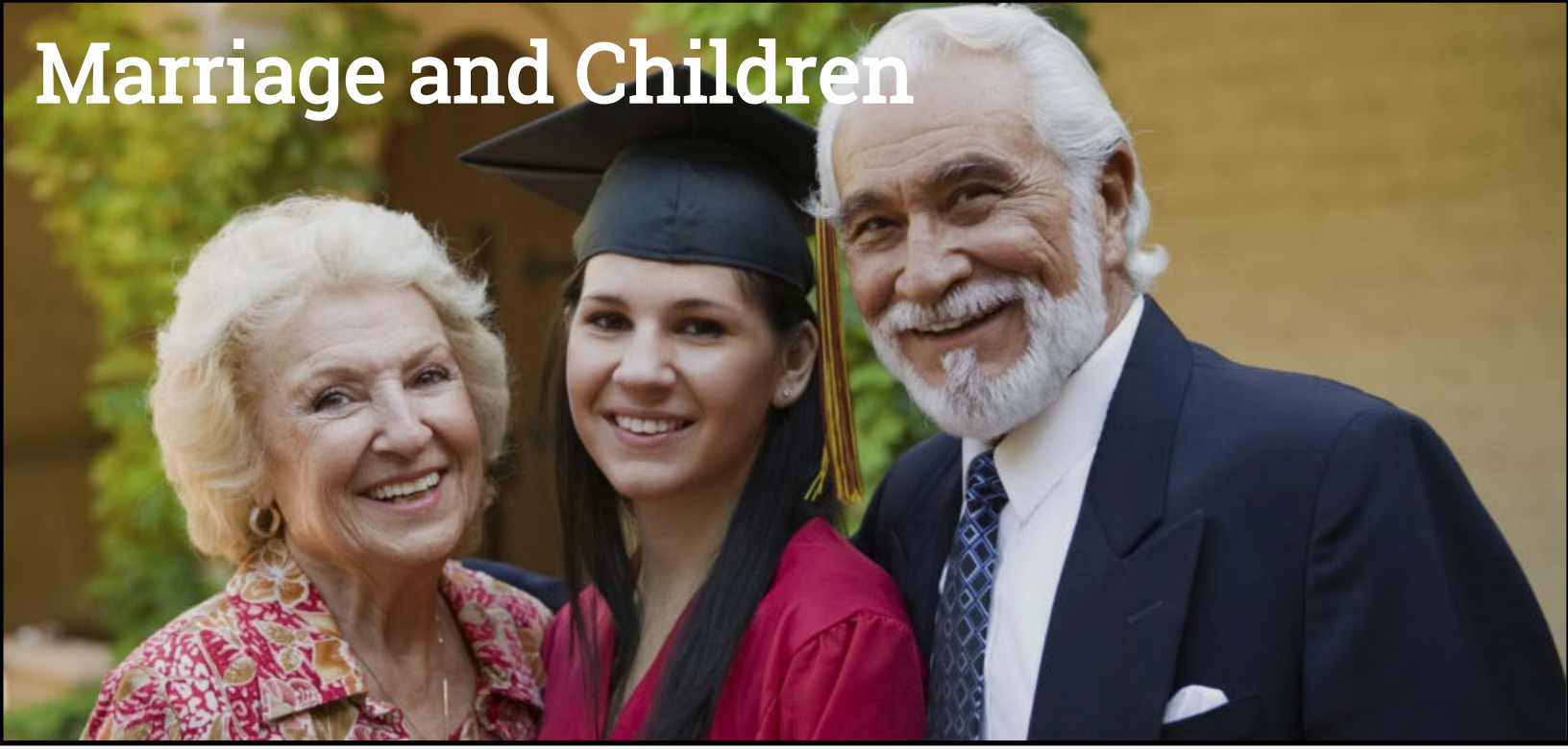
What to Take Advantage Of

> "They changed the tax brackets… and in general, if you're talking apples to apples on your income, you're going to pay less in tax… most people's income is going to be pushed into a lower bracket rate-wise."
>
> -Mark Barone
>
> *Stableford Capital Accounting and Tax Specialist*

Many of the beneficial changes make it possible for people earning under certain thresholds to save and reduce overall taxes.

These changes also provide a break on big life events like marriage, having children, and paying for tuition.

Marriage and Children



The marriage penalty no longer applies to many. If you make under $400,000, your tax rate will no longer increase after marriage.

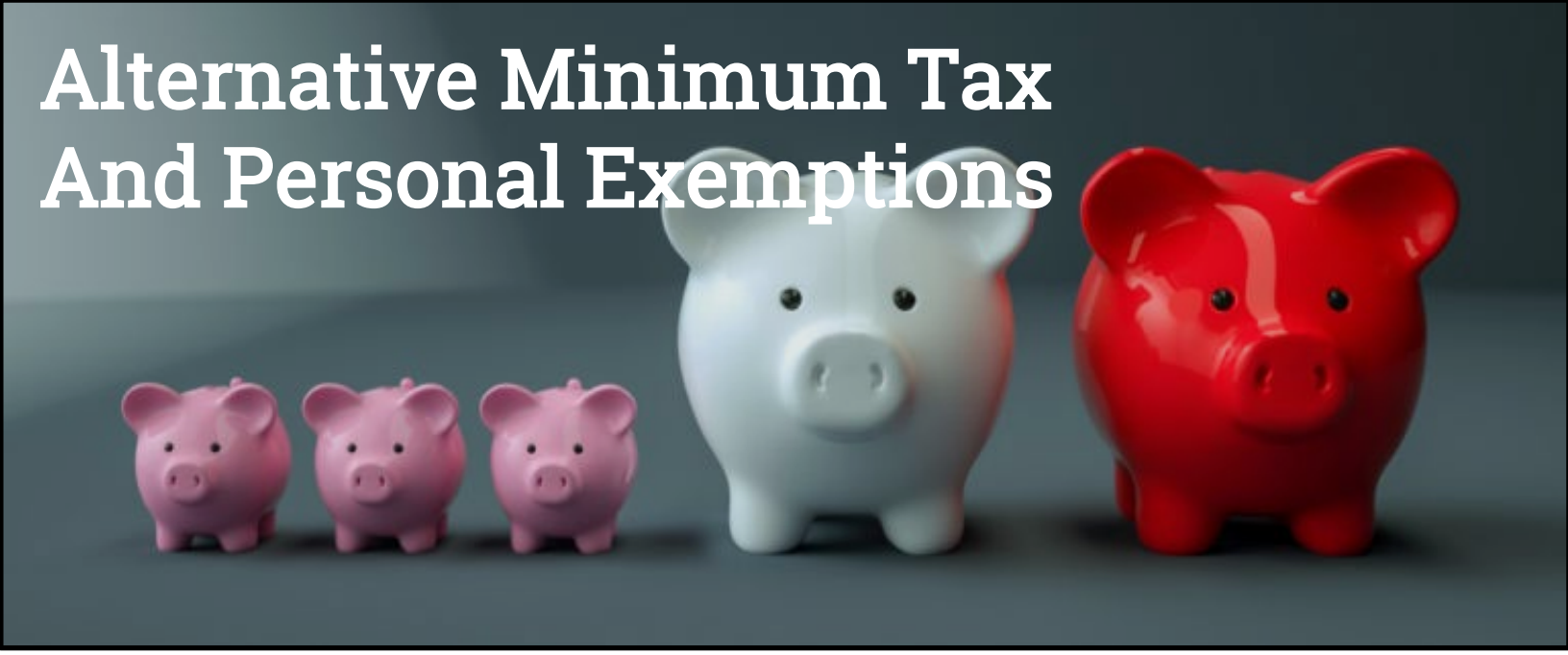
The child credit has doubled to $2,000 per child under seventeen (17). This applies to those with an income under $400,000.

Income limits on the child credit have also been raised significantly to $200,000 for single filers and $400,000 for married filers. **This means more taxpayers can take advantage of the tax credit.**

Uses for 529 plans have expanded to include tuition from kindergarten through college. This creates greater options for those choosing private schools.

A 529 account offers tax-deferred growth and a state tax deduction. This type of savings account allows tax-free withdrawals, meaning no income tax is paid on the growth when used for qualified educational expenses.

Alternative Minimum Tax And Personal Exemptions



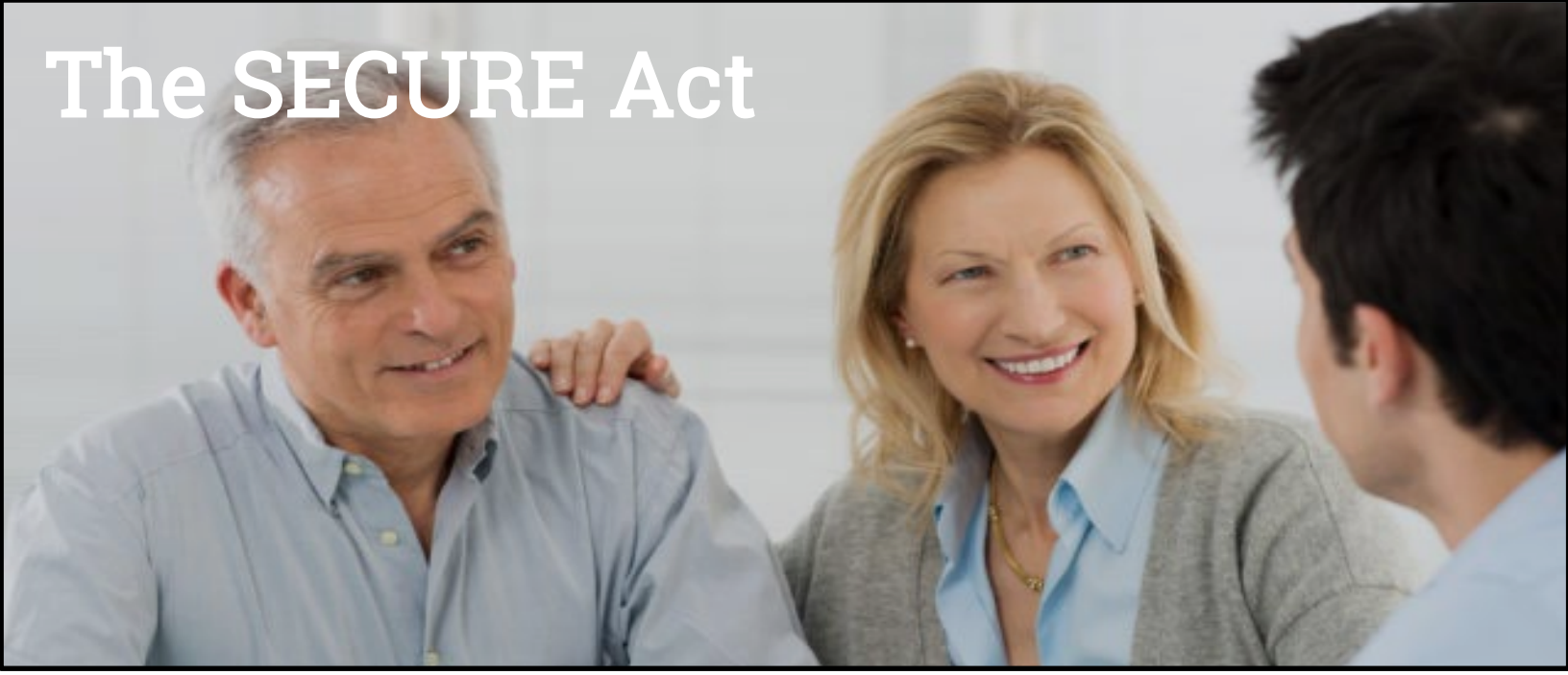
Benefits of the Tax Reforms

The alternative minimum tax, which calculates the bare minimum of what each person should pay, has increased to a $1 million threshold.

Personal exemptions have been eliminated. Now they are combined with the standard deduction. This is up to $12,000 per person ($24,000 per couple). Any deductions over this amount can then be itemized.

At the broad macro level, the tax reforms essentially benefit everyone. As Forbes.com puts it, "a rising tide floats all boats."

The SECURE Act



At the end of 2019, the SECURE Act made it through Congress on the coattails of the budget. The ***Setting Every Community Up for Retirement Enhancement* Act** is supposed to do just that: make retirement finances an accessible goal for more people.

The Act took effect January 1, 2020 and comes with some changes that are worth taking advantage of.

Benefits of the SECURE Act

- 401k automatic enrollment caps increase to 15%
- New 18-month pushback for Required Minimum Distributions, from age 70½ to 72. This only applies to those turning 70½ after January 1, 2020. You must begin taking RMDs,At age 72, regardless.
- Contributions to an IRA may continue after 70½, as well. This benefits those who work past traditional "retirement" age and would like to continue saving.

Additional Benefits of the SECURE Act

Withdraw money from retirement plans penalty-free when a child is born or adopted, up to $5,000 per person. A couple could apply a total of $10,000 of savings.

The SECURE Act also encourages younger people to save and enables that savings to be used for student loan debt and childbirth/adoption costs without early withdrawal fees.

Long-term, part-time workers may also be eligible for 401k plans.*

*The House Committee on Ways & Means Committee notes that this is particularly useful for women, who are more likely to work part-time, often due to childcare commitments.

CHAPTER

2

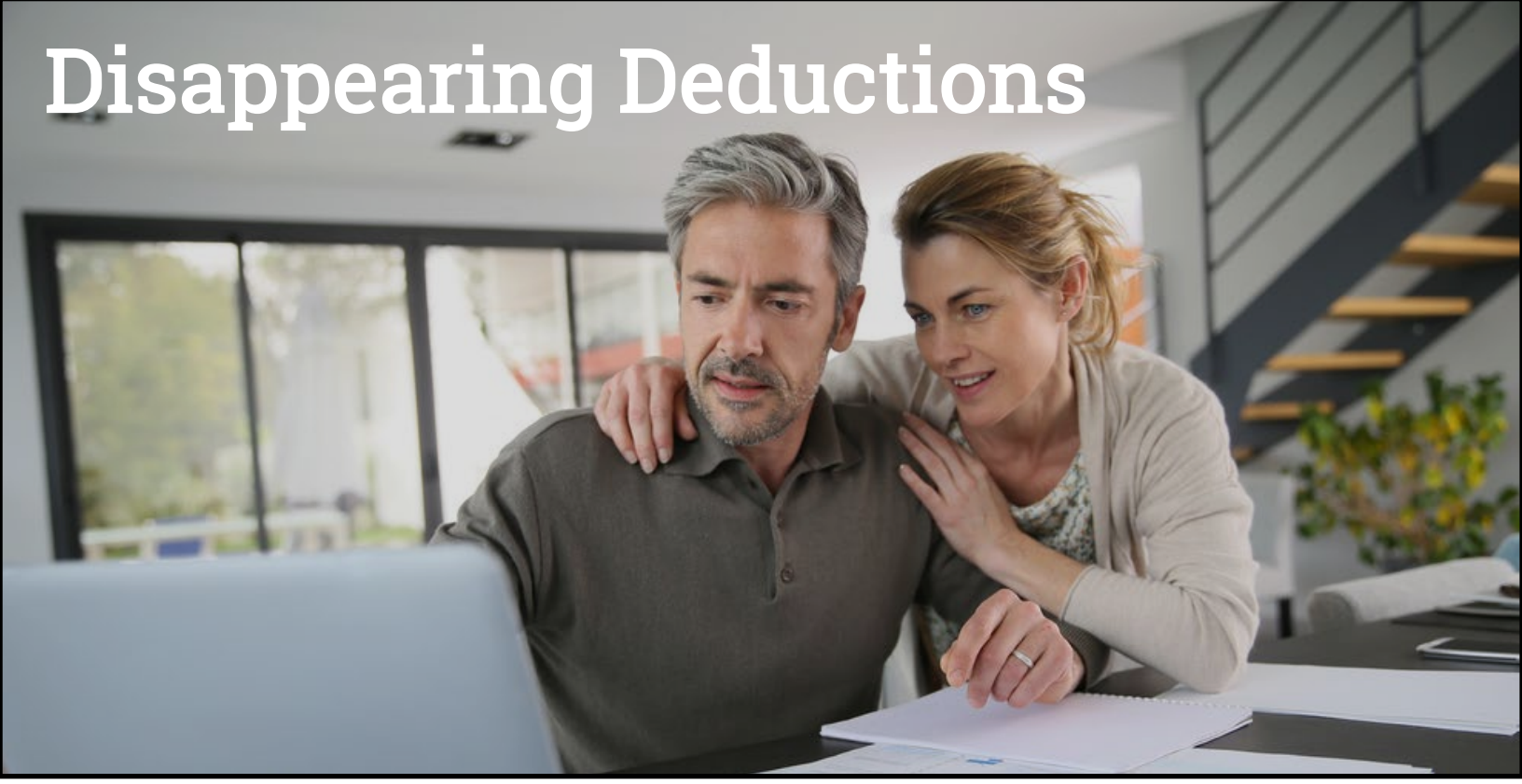
Changes to Be Cautious Of

Changes to Be Cautious Of

With these reforms come **some changes that may reduce your investment savings**. Since many of these include changes to what can be deducted, it's important to be aware of if and how these changes will affect your personal tax return.

- **The mortgage interest deduction has been reduced from $1 million to $750,000**. If your mortgage is over $750,000 you must prorate how much you get to deduct as far as mortgage interest dollars.

- **Only $10,000 of income and real estate can be deducted**. However, what some may lose on this may be made up by moving out of the alternative minimum tax threshold. Alternative minimum tax does not include state and local taxes.



Dissapearing Deductions You Should Know About

- **Job-related moving expenses are no longer deductible for the individual taxpayer**. However, it is for businesses, so ask your company to pay.

- As of 2018 and onwards, **alimony payments are no longer deductible** and not counted in the income of the recipient.

- **Deductions have been lost on unreimbursed business expenses**. Broker and CPA fees can no longer be deducted, either. Ask employers to reimburse these now.

- A Traditional 401k may be converted to a Roth IRA. Changing it back to Traditional was a recharacterization. Doing so could save in taxes. Now, **the IRA recharacterization has been eliminated**.

The SECURE Act

Considerations

While the SECURE Act can reduce fees and taxes in some areas, it may also negatively affect the ability of your beneficiaries to easily inherit the contents of a retirement plan in the event of your passing.

IRA inheritance windows have narrowed, starting from the date of death. Drawdowns must occur by the end of the 10th calendar year. You can extend this by strategically considering who may have exclusions from this rule: disabled individuals, spouses, minor children (until the age of majority) and individuals within 10 years of the account holder's age.

IRAs may also be spread out between several different heirs, reducing the tax burden over time.

CHAPTER

3

Effects on Businesses

Effects on Businesses

Business Benefits of the Tax Cuts and Jobs Act

Big businesses stand to benefit the most from the tax reform.

The 2018 tax updates cut the tax rate applicable to "C" corporations from 35% to 21%. The alternative minimum tax rate for corporations was also repealed. The idea behind the new permanent, flat 21% rate is that it will make corporations more globally competitive while encouraging investment in the economy.

The lower corporate tax rate benefits may trickle down to employees of corporations, as well.

In light of the tax reforms, big businesses raised hourly wages, promised employees $1,000 bonuses and announced intentions to increase charitable giving by up to 40%.

Business owners are likely the most affected by the 2017 Tax Cuts and Jobs Act, since many of the tax updates change business tax preparation.

Business Owners Benefits

4 Types of Business Owners Who Could Benefit Most

Small business owners making $150,000 or less (married filing jointly). The first $75,000 in income is at a 9% rate (phased in and not fully available until 2022).

Small business owners making over $260,000 a year. The max tax rate is lower when 30% of income may be taxed at 25%.

Passive investors in small businesses. Passive pass-through income qualifies for the lower 25% rate on the entire 100% of income.

Companies purchasing expensive equipment. If purchased by 2023, you can immediately write off 100% of business equipment purchases, rather than depreciating over many years.

Direct expenses of capital assets for small businesses were also raised from $500,000 to $1 million.

Business Pitfalls to Be Aware Of

Although several businesses have benefited from the 2018 tax updates, there are certainly those at a disadvantage.

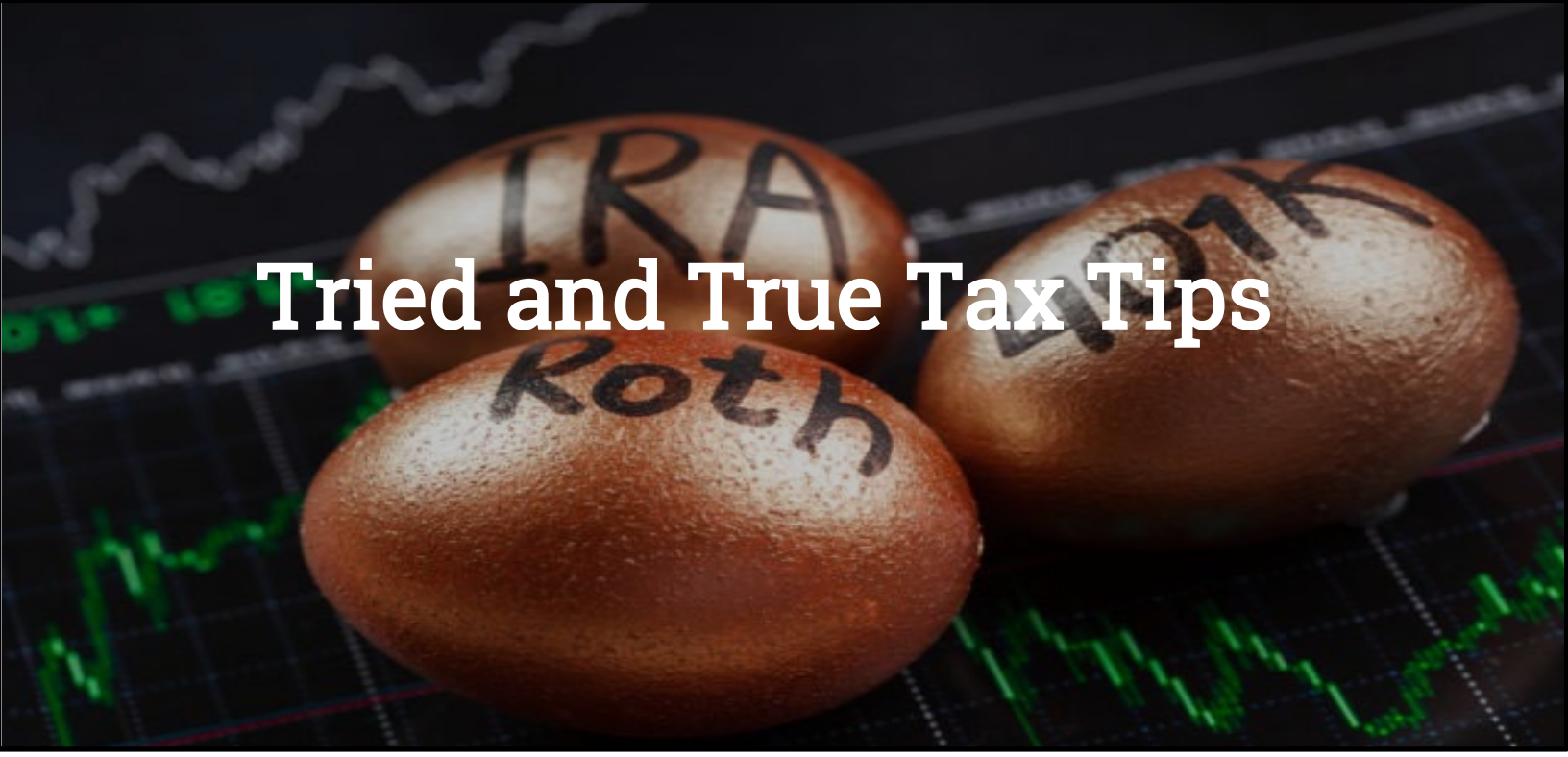
While pass-through entities like LLCs and S Corps are taking advantage of a lower tax rate, **pass-through entities categorized as a service business, or consultants, are explicitly denied the lower rates**.

Employees at startup and tech companies no longer reap the previous benefits of stock options, either, as **stock options are now taxed when vested instead of when sold**.

CHAPTER

4

Tax Tips



Tried and True Tax Tips

4 Tax Tips to Take Throughout the Year

The goal of tax planning is to reduce overall taxes. Taking four simple steps throughout the year can help you achieve breaks on your tax return, as well as put your money to work.

1. Maximize retirement savings, including 401k, self-employed plans, other retirement plans, and IRAs. ***This lowers your taxable income.***

2. Fund a health savings account (HSA). This is a tax-advantaged medical savings account and makes for an above-the-line deduction directly against your income. In 2020, a family can save $7,100 in an HSA and get a deduction. ***This is a tax benefit on medical expenses.***

Stay Up-to-Date on Contribution Limits. Tax contribution limits are updated regularly, so be sure you know how much you can contribute to both retirement and HSA accounts.

Gifts & Credits

4 Tax Tips to Take Throughout the Year

3. Utilize the gift tax exclusion. If your estate is under the $11.58 million threshold, this can be a good way to save on taxes. Each person can gift up to $15,000 to a recipient per year.

For example, both a father and mother can give the full $15,000 to one child in the same year, for a total of $30,000 tax-free.

4. Take tax credits. Some states, like Arizona, have credits which allow taxpayers to ***decide where their tax dollars go***. Arizona's tax credits include public school, private school, working poor and foster care categories. And you can contribute the maximum to each category.

Credits make for better reductions on taxes than deductions

Bonus Tax Tips

A Word About Filing

File on time. Filing a return late can result in a penalty of ***4.5% of the tax owed, paid each month the return is past due up to five months*** (capped at 25%).

For returns 60+ days late, you'll be charged a minimum of $205 or 100% of your unpaid tax, whichever is less. A late-payment penalty may also be applied: 0.5% of the tax due, per month past due, plus interest.

If you are owed a refund, penalties do not apply.

If you can't finish your return by the deadline, file Form 4868 for a six-month extension. ***You still must pay at least 90% of your owed taxes by the April tax deadline*** to avoid the late payment penalty.

Work from home? Don't neglect the home office tax deduction. The eligibility for claiming a home office has been loosened to allow more self-employed filers to claim this tax break.

Tax Planning

Consult With Us

To learn more about how the tax reforms affect your personal and business tax returns, contact Stableford by calling 480.493.2300.

Request Your 15 Minute Consult

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