Kerber, Eck & Braeckel LLP
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Year End Reminders

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The first day of fall arrived recently which may be a good reminder to take stock of the year for income tax purposes. A good place to start is a refresher on the tax reform changes passed last December.

Tax Rates

Tax rates decreased for individuals beginning in 2018. For employees, the withholding tables changed in February, so you may not have to do anything to adjust for these lower rates. It still may be a good time to double check things with a projection of tax so there are no surprises in April. In addition, if you have other income that is not subject to withholding it is more important to get a handle on where you stand so that your 4th quarter estimated tax payment can be modified if needed. As a reminder, the new rates have decreased substantially. Both the old and new rates are as follows:

2018

Single

Taxable Income	Tax Rate
$0 - $9,525	10% of taxable income
$9,526 - $38,700	$952.50 *plus* 12% of the amount over $9,525
$38,701 - $82,500	$4,453.50 *plus* 22% of the amount over $38,700
$82,501 - $157,500	$14,089.50 *plus* 24% of the amount over $82,500
$157,501 - $200,000	$32,089.50 *plus* 32% of the amount over $157,500
$200,001 - $500,000	$45,689.50 *plus* 35% of the amount over $200,000
$500,001 or more	$150,689.50 *plus* 37% of the amount over $500,000

Married Filing Jointly or Qualifying Widow(er)

Taxable Income	Tax Rate
$0 - $19,050	10% of taxable income
$19,051 - $77,400	$1,905 *plus* 12% of the amount over $19,050
$77,401 - $165,000	$8,907 *plus* 22% of the amount over $77,400
$165,001 - $315,000	$28,179 *plus* 24% of the amount over $165,000
$315,001 - $400,000	$64,179 *plus* 32% of the amount over $315,000
$400,001 - $600,000	$91,379 *plus* 35% of the amount over $400,000
$600,001 or more	$161,379 *plus* 37% of the amount over $600,000

2017

Single

Taxable Income	Tax Rate
$0 - $9,325	10%
$9,326 - $37,950	$932.50 plus 15% of the amount over $9,325
$37,951 - $91,900	$5,226.25 plus 25% of the amount over $37,950
$91,901 - $191,650	$18,713.75 plus 28% of the amount over $91,900
$191,651 - $416,700	$46,643.75 plus 33% of the amount over $191,650
$416,701 - $418,400	$120,910.25 plus 35% of the amount over $416,700
$418,401 or more	$121,505.25 plus 39.6% of the amount over $418,400

Married Filing Jointly or Qualifying Widow(er)

Taxable Income	Tax Rate
$0 - $18,650	10%
$18,651 - $75,900	$1,865 plus 15% of the amount over $18,650
$75,901 - $153,100	$10,452.50 plus 25% of the amount over $75,900
$153,101 - $233,350	$29,752.50 plus 28% of the amount over $153,100
$233,351 - $416,700	$52,222.50 plus 33% of the amount over $233,350
$416,701 - $470,700	$112,728 plus 35% of the amount over $416,700
$470,701 or more	$131,628 plus 39.6% of the amount over $470,700

Deductions

A number of deductions have been capped or eliminated beginning in 2018.

The personal exemption is gone.

State and local taxes are capped at $ 10,000.

On the home mortgage front:

> Home equity interest is no longer deductible. There is no grandfathering of existing debt. If you have a home equity loan, taxwise, paying it off may be advisable. Though, keep in mind, interest on home equity debt incurred to improve a home should still be allowable.
>
> The maximum amount of debt for which interest can be deducted on a home loan decreased from $ 1,000,000 to $ 750,000. The cap is half that for married filing separately taxpayers.

Charitable donations can now be deducted up to 60% of adjusted gross income. That limit had been 50% and this generally applies to cash donations. Gifts of property have other limitations.

Miscellaneous itemized deductions are no longer deductible. Some of the more common expenses in this category are employee business expenses, union and professional dues, tax preparation costs, and investment fees and expenses. If you incur employee business expenses, trading salary for an expense reimbursement will improve your after-tax cash flow.

The standard deduction doubled from $ 12,700 in 2017 on a joint return to $ 24,000 in 2018. If your total deductions are near the standard deduction amount it may make sense to look at your charitable donations carefully. Bunching charitable deductions or using donor advised funds to get multiple years of donations into one tax year can be an effective tax planning technique. Our advisors at KEB Asset Management have used a donor advised fund through Charles Schwab very effectively with clients.

Other Changes

While the personal exemption was taken away, the child tax credit is now $ 2,000 (doubled) and is available to higher income taxpayers. That phaseout was $ 75,000 before tax reform and is $ 200,000 now.

Unfortunately, the alternative minimum tax was not fully repealed as many had hoped, however, it should apply to fewer taxpayers due to the increase in the exemption. This had been $ 84,500 on a joint return (now $ 109,400) and $ 54,300 on a single return (now $ 70,300).

Pass Through Deduction

This topic is extremely complicated, which is why it has its own section. You can find other information on this topic in our newsletter and in another article on our website I wrote concerning the new proposed regulations issued this summer.

In short, owners of many pass-through entities will be entitled to a 20% deduction of the taxable income passed through to them from a partnership, LLC, S corporation or sole proprietorship. Limitations can apply based on the wages and depreciable property inside the flow-through. In addition, some businesses may not qualify. Think consultants, CPA's, attorneys, doctors, etc.

Guidance was published by the IRS this summer that answered some, but not all questions. One of the areas the regulations did not fully address is the applicability of the 20% deduction to rental activities. Most practitioners believed rental owners would be entitled to the deduction. Under the proposed regulations it's unclear.

This deduction is certainly something you can incorporate into your year-end tax projections, if for no other reason, than to get a realistic picture of what April 15th, 2019 may look like.

Summary

Fall is a good time to start collecting your thoughts on how 2018's tax liability may look and should give you adequate time to take steps to minimize next April's tax bill.