TAX NEWS

SPRING 2019

Dear Client:

We are at the end of a challenging tax season which included a comprehensive change to the tax law and a change to the Form 1040 and the addition of six additional schedules to accompany the new Form 1040 in its ‘postcard’ design.

While many of you may have experienced significant benefits from the new tax law, there were a significant number of taxpayers who were faced with smaller refunds or even a balance due which they were not expecting.

In 2018 the IRS started their campaign for the “Paycheck Checkup.” Are you one of the affected taxpayers who should be reviewing their payroll withholding? Following is information on the individuals who should be verifying that they are having the appropriate amount withheld from their paycheck.

And for those of you who have chosen not to file a tax return, read up on why you should file a return even if are not required to do so. If one or more of these situations applies to you, contact our office to see if it would be beneficial to file an individual tax return for 2018 (even if it is late – this does not affect your ability to receive a refund of overpaid taxes or from a refundable credit).

If you are nearing retirement or have delayed receiving funds from your traditional IRA or deferred compensation plan from work, be sure you review the rules on distributions. Contact our office if you have neglected to take the required funds in a timely manner.

Our office is open year-round to help you with your tax filing requirements, reviewing the projected tax liability for the current year, and helping you plan for the potential requirement to file and pay taxes. If you are required to pay estimated tax payments, the next payment is due June 17th (since the 15th falls on a Saturday). Let us help you determine the correct amount to pay in taxes—whether it be through payroll withholding or sending in estimated tax payments.

Paycheck Checkup

The IRS has launched a major initiative to encourage all employees to verify that they are having the appropriate amount of federal withholding taxes deducted from their paycheck. In order to use the IRS calculator tool, you will need your most recent paystub and your most recent tax return.

The IRS Withholding Calculator

The Calculator helps you identify your tax withholding to make sure you have the right amount of tax withheld from your paycheck at work.

There are several reasons to check your withholding:

- Checking your withholding can help protect against having too little tax withheld and facing an unexpected tax bill or penalty at tax time next year.
- At the same time, with the average refund topping $2,800, you may prefer to have less tax withheld up front and receive more in your paychecks.

If you are an employee, the Withholding Calculator helps you determine whether you need to give your employer a new Form W-4, *Employee’s Withholding Allowance Certificate*. You can use your results from the Calculator to help fill out the form and adjust your income tax withholding. If you receive pension income, you can use the results from the calculator to complete a Form W-4P and give it to your payer.

Plan Ahead: Tips for Using This Program

The Calculator will ask you to estimate values of your 2019 income, the number of children you will claim for the Child Tax Credit and Earned Income Tax Credit, and other items that will affect your 2019 taxes.

This process will take a few minutes.

- Gather your most recent pay stubs.
- Have your most recent income tax return handy; a copy of your completed Form 1040 will help you estimate your 2019 income and other characteristics and speed the process.
- Keep in mind that the Calculator’s results will only be as accurate as the information you provide. If your circumstances change during the year, come back to this Calculator to make sure that your withholding is still correct.
- The Withholding Calculator does not ask you to provide sensitive personally-identifiable information like your name, Social Security number, address or bank account numbers. The IRS does not save or record the information you enter on the Calculator.

Who Will Benefit from the Paycheck Checkup?

- Families with two incomes or someone who has multiple jobs may be more vulnerable to being underwithheld or overwithheld following major law changes.
- If you work a seasonal job or only work part of the year. Any changes that a part-year employee makes to their withholding can affect each paycheck in a larger way than employees who work year-round.

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Required Minimum Distributions (RMDs)

As you or your loved ones near retirement, there is a requirement that funds held in a tax – deferred account such as a traditional IRA or 401(k) plan start to be distributed in the year in which you turn 70½ years of age. The following chart outlines the requirements based on your specific situation. If you have neglected to withdraw your RMD or have any questions as to how to calculate your RMD contact the office to schedule a time to meet.

Required Minimum Distributions for Account Owners

	IRAs including SEP, SIMPLE and SARSEP IRAs	Defined Contribution Plans
When do I take my first RMD (the required beginning date)?	You must take your first RMD by April 1 of the year following the year in which you turn 70½, regardless of whether you are still employed.	April 1 of the year following the later of the year you turn 70½ or the year you retire (if allowed by your plan). If you are a 5% owner, you must start RMDs by April 1 of the year following the year you turn 70½.
When do I reach age 70½?	You reach age 70½ on the date that is 6 calendar months after the date of your 70th birthday. **Example:** Your 70th birthday was June 30, 2019. You reached age 70½ on December 30, 2019. You must take your first RMD (for 2019) by April 1, 2020. **Example:** Your 70th birthday was July 1, 2019. You reached age 70½ on January 1, 2020. You do not have an RMD for 2019. You must take your first RMD (for 2020) by April 1, 2021.	Same as IRA rule
What is the deadline for taking subsequent RMDs after the first RMD?	After the first RMD, you must take subsequent RMDs by December 31 of each year beginning with the calendar year containing your required beginning date. **Example:** You turn 70½ on July 15, 2019. You must take your first RMD, for 2019, by April 1, 2020. You must take your second RMD, for 2020, by December 31, 2020, and your third RMD, for 2021, by December 31, 2021.	Same as IRA rule
How do I calculate my RMD?	Your RMD is generally determined by dividing the adjusted market value of your IRAs as of December 31 of the preceding year by the distribution period that corresponds with your age in the Uniform Lifetime Table (Table III in IRS Publication 590-B, *Distributions Individual Retirement Arrangements (IRAs)*). If your spouse is your sole beneficiary and is more than 10 years younger than you, you will use the Joint Life and Last Survivor Expectancy Table (Table II in IRS Publication 590-B).	Same as IRA rule Your plan sponsor/administrator should calculate the RMD for you.
How should I take my RMDs if I have multiple accounts?	If you have more than one IRA, you must calculate the RMD for each IRA separately each year. However, you may aggregate your RMD amounts for all of your IRAs and withdraw the total from one IRA or a portion from each of your IRAs. You do not have to take a separate RMD from each IRA.	If you have more than one defined contribution plan, you must calculate and satisfy your RMDs separately for each plan and withdraw that amount from that plan. **Exception:** If you have more than one 403(b) tax-sheltered annuity account, you can total the RMDs and then take them from any one (or more) of the tax-sheltered annuities.
May I withdraw more than the RMD?	Yes, an IRA owner can always withdraw more than the RMD. You cannot apply excess withdrawals toward future years' RMDs.	Same as IRA rule
May I take more than one withdrawal in a year to meet my RMD?	You may withdraw your annual RMD in any number of distributions throughout the year, as long as you withdraw the total annual minimum amount by December 31 (or April 1 if it is for your first RMD).	Same as IRA rule
What happens if I do not take the RMD?	If the distributions to you in any year are less than the RMD for that year, you are subject to an additional tax equal to 50% of the undistributed RMD.	Same as IRA rule

NOTE: There are no RMD requirements for a Roth IRA while the owner is alive. However, designated Roth accounts are subject to the RMD rules.

12 Reasons to File a Tax Return
even if you don't have to

If you are a U.S. citizen or resident who made money last year, whether you must file a tax return or not is usually dependent on three things: gross income, filing status and age. Table 1 shows the minimum requirements for filing an income tax return.

2018 Filing Requirements for Most Taxpayers (Table 1)

If your filing status is:	AND at the end of 2018 you were:	THEN file a return if your gross income was at least:
Single	64 or younger 65 or older	$12,000 $13,600
Married filing jointly	64 or younger (both spouses) 65 or older (one spouse) 65 or older (both spouses)	$24,000 $25,300 $26,600
Married filing separately	Any age	$5 (Yes, five bucks)
Head of Household	64 or younger 65 or older	$18,000 $19,600
Qualifying widow/widower	64 or younger 65 or older	$24,000 $25,300

But there also are other factors that, well, factor into the decision. They include:

- You have household help and pay your employees enough to trigger employment taxes. For the 2018 tax year, that's $2,100 and it means a Schedule H must be filed with the Form 1040. Although this requirement is popularly called the "nanny tax", it covers not just childcare assistance, but also maids, housekeepers, gardeners and others who work in or around a private residence as an employee. This does not apply to independent contractors who provides house cleaning services for the taxpayer or a landscaping company who works for multiple homeowners.
- If your, your spouse or dependents received advance payments of the premium tax credit to help cover medical coverage purchased through the healthcare Marketplace. A tax return must be filed to reconcile those amounts.
- If as an independent contractor you made, after expenses, at least $400 from self-employment. While you might not technically have made enough to require filing, you will still have to file in order to pay the self-employment (SE) tax on these independent earnings. The tax due here, calculated on Schedule SE, is the self-employed person's version of the payroll taxes that go toward Social Security and Medicare, aka FICA, that are taken out of the workers' checks. It is possible you could owe SE taxes, but no income tax and a tax return must be filed to submit the payment for the SE taxes.
- Not all of the tips earned were reported to the employer. You will need to do that by filing a return and paying the SE tax on those gratuities. The same SE filing is required if the you received a paycheck, but the employer did not withhold the FICA taxes.
- You owe the Alternative Minimum Tax (AMT). This parallel tax, created in the 1960s to ensure that rich taxpayers paid at least some (aka minimum) amount of tax, used to snare a lot of middle-income filers because it was not indexed for inflation. That changed in 2013, with the annual exemption amounts now reducing the number of folks caught in this tax net. The TCJA went even further, increasing AMT phaseout threshold amounts to $1 million for married taxpayers filing a joint return and $500,000 for all other taxpayers. If, however, you make enough that you have to pay the AMT, then you must file.

Sometimes even if you do not have to file a tax return, it is to your benefit to do so. Here are 12 situations when you should file a federal income tax return:

1. Federal income tax was withheld, and no tax is due. The only way to get any of this excess money back as a refund is to file a Form 1040.
2. You made estimated tax payments for the year or had any of your overpayment from last year's tax filing applied to this year's estimated tax. Again, the only way to get any of this excess money back as a refund is to file a Form 1040.
3. You qualify for the Earned Income Tax Credit (EITC). This tax break for lower- and middle-income workers is, as the name says, a credit, which means it reduces any tax you owe dollar-for-dollar. It's also a refundable credit, meaning you can get a tax refund even if you do not owe any tax. The amount of the credit and the

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Paycheck Checkup

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- The law expanded and made significant changes to the Child Tax Credit. It also suspended the deduction for personal exemptions. Parents and caregivers should do a Paycheck Checkup to determine how these changes could affect their tax situation.
- If you have dependents age 17 or older, the Tax Cuts and Jobs Act added a new credit. Dependents who can't be claimed for the Child Tax Credit may qualify taxpayers for the Credit for Other Dependents. This is a credit of up to $500 per qualifying person.
- If you itemized your deductions in previous years, the Tax Cuts and Jobs Act nearly doubled standard deductions and changed several itemized deductions. Some individuals who formerly itemized may now find it more beneficial to take the standard deduction. This change could affect how much a taxpayer should have their employer withhold from their pay. Even those who continue to itemize deductions should check their withholding because of these changes.
- Those taxpayers who have high income or a complex tax return because they are likely affected by more of the changes in the law than people with simpler returns. A Paycheck Checkup is also important for taxpayers who make quarterly estimated tax payments to cover other sources of income or those who are subject to the self-employment tax or alternative minimum tax.
- If you had a large tax refund last year, verify that you are having the correct amount taken out of your pay towards federal income taxes.
- Conversely, if you had a tax bill last year avoid another surprise by adjusting your payroll withholding accordingly

Contact the office if you have any questions regarding your potential tax liability and using the Withholding Calculator to calculate your potential 2019 tax liability.

12 Reasons to File a Tax Return *even if you don't have to*

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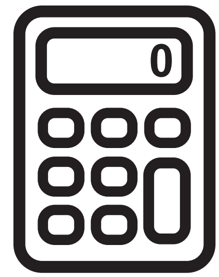
income thresholds are adjusted annually for inflation, with as much as $6,431 available to some EITC eligible filers for the 2018 tax year.

4. If you qualify for the refundable portion of the Tax Cuts and Jobs Act's (TCJA) new child tax credit. Like the EITC, this additional child tax credit means you could get money back—as much as $1,400—even if you do not owe any tax.

5. You qualify for the Affordable Care Act's (ACA) premium tax credit. The Affordable Care Act (aka Obamacare) is still law. Most people who qualify for this credit get it in advance—which, as noted in the must-file discussion above, means you have to send in a Form 1040—when they purchase their health insurance via the Marketplace. But you do have the option of paying all your premiums in full yourself during the tax year and then claiming the credit when you file your tax return.



6. You qualify for the health coverage tax credit (HCTC). The HCTC is a refundable tax credit that pays 72.5 percent of qualified health insurance premiums for eligible individuals and their families. This is a separate, more narrow tax credit with different rules than the ACA's premium tax credit. The IRS has a special Web page with HCTC eligibility and claiming details.

7. You qualify for the American opportunity tax credit. This educational tax break would give you a credit of up to $2,500 and portion of it—up to $1,000—is refundable to some qualifying filers.

8. To establish a placeholder for tax deductions and/or credits you need to carry forward. For example, a taxpayer cannot claim a home office deduction if it would produce a loss on the Schedule C. Instead, you claim zero business income for the year and carry any leftover deduction into the next year. But in order to claim that extra write-off in future years when you do have more income, you need to file for that initial claim.

9. You received a Form 1099-B, Proceeds from Broker and Barter Exchange Transactions. Even if you are not required to file a return, if you received this document (or substitute statement) you might want to file a return. Especially if the cost (or basis) of the sold items is not reported to the IRS. All they will see is the sale price and you will need to provide how much you paid for the stock and when it was purchased.

10. You must file a state return. Most states collect income tax and use their residents' federal tax filings as the basis for the state returns. But your state may have some differences with federal tax laws when it comes to filing requirements.

11. You (or your spouse if filing jointly) received Archer MSA, Medicare Advantage MSA, or health savings account distributions.

12. To start the audit statute of limitations clock ticking. The IRS generally can go back three years to look at your old tax filings. But that time frame does not start until you actually file a Form 1040. So even if you did not make quite enough to trigger the filing requirement, you might want to make sure the IRS cannot come back, say, 10 years from now to ask about why you did not file in 2018.

If you have any questions as to your benefits in filing an income tax return, contact our office for a comprehensive review of your tax situation.