TAX PLANNING LETTER

New Year 2019

Dear clients and friends,

Shock, awe, joy, exasperation, dejection — no matter your reaction to your 2018 tax bill, you may find relief knowing that 2019 offers a fresh year to apply new tax strategies to your situation.

While many of the new, altered and eliminated tax laws are set to last through 2025, there are changes this year to consider while tax planning. Read about the alimony deduction elimination, the medical expenses deduction threshold increase and the Affordable Care Act individual mandate penalty repeal. Then begin building your 2019 tax plan by making time-tested tax moves, like checking your withholdings early on and prioritizing your retirement plan savings.

And business owners, read how you can begin the year on the right foot by ensuring the future of your business through a comprehensive succession plan. Take a look at the essential plan elements listed in this Tax Planning Letter.

Remember, the earlier in the year you start to plan, the more effective your efforts are likely to be. Call if you'd like help planning your 2019 tax strategy.

Feel free to share this newsletter with friends and associates who would like to learn about tax benefits available throughout the year.

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Will these new changes alter your 2019 tax plan?

Although it's been a year since we've seen major tax legislation, there are a few big changes you may want to consider as you plan for the year ahead:

Alimony rules change dramatically

For all divorce agreements that finalize after Dec. 31, 2018, alimony payments will not bear any tax consequences. The person receiving the alimony will no longer owe taxes on the income and the person paying the alimony cannot deduct the expense. This change does not affect agreements with alimony considerations in place before Jan. 1, 2019 — alimony in those cases will still be taxable and deductible.

There are a couple things to consider with this change. First, if a prenuptial agreement is in place, it might need to be revisited. The cutoff date applies to when a divorce is finalized, regardless of any prior agreements. Second, the tax implications of payment arrangements (mortgage payments, health insurance, etc.) as part of a divorce settlement in lieu of alimony payments need to be fully understood and applied to your tax situation.

No more individual mandate health insurance penalty

The penalty imposed on individuals without qualified health insurance will be gone starting in 2019. The penalty has been as high as $2,085 per family in previous years, depending on the makeup of your household. Be aware that the penalty is still in place for 2018.

Keep in mind that individual states may impose their own individual mandate penalties. For example, Massachusetts currently has a penalty in place, New Jersey and Washington D.C. have penalties starting in 2019, and Vermont will follow in 2020. More states are expected to entertain the idea in the future. Also, the Congressional Budget Office (CBO) is projecting a 10 percent increase in health insurance premiums as a result of this change. Prepare yourself for possible rising insurance costs.

Medical deduction income threshold increases

Deducting your medical expenses is now more difficult. The adjusted gross income (AGI) floor to deduct medical expenses as an itemized deduction is increasing by 2.5 percent, from 7.5 percent to 10 percent of AGI in 2019. This means that depending on your situation, it will either be harder to deduct medical expenses or the deduction you've been accustom to will be less.

Consider this example: George's AGI is typically $100,000 per year, and he averages $12,000 in annual medical expenses. In 2018, George can deduct all qualified medical expenses over $7,500 (7.5 percent of his AGI.) After subtracting the threshold from George's medical expenses, he is left with a $4,500 deduction for 2018. In 2019, the threshold rises to 10 percent. George's 2019 deduction is only $2,000 — a decrease of $2,500 from 2018.

One way to hedge against the affect of the change is to place multiple years of expenses into one taxable year, if possible. While most health-related costs are uncontrollable, if you have control over the timing of a procedure, lumping high expenses into a single year may allow you to itemize one year and take advantage of the higher standard deduction the next.

Understanding these 2019 changes now allows you to kick off the new year with your tax planning strategy in full swing. Please call or set up a meeting to discuss how the changes impact your situation. ❑

Your top 3 go-to tax moves

While you may find yourself overhauling your yearly tax strategy in light of new tax laws, there are three time-tested steps you can take to start your 2019 on the right foot:

1. Check your withholding.

Confirm you have the right amount withheld from your paycheck in 2019. Doing this will help you make sure your withholdings will meet minimum tax payment requirements so you don't end up paying underpayment penalties or providing interest-free loans to the IRS. It's especially important to check if you recently had a change in income, or you've experienced a big life event, like a childbirth or new home purchase.

You can check your withholding using the IRS Withholding Tool. If you need to change your withholding, complete a new Form W-4 and submit it to your employer as soon as you can. (Both the withholding tool and the form can be found on the IRS website.)

2. Prioritize retirement and savings plans.

Take time to review your 401(k), individual retirement account (IRA), health savings account (HSA) and other savings accounts to ensure you're maximizing your tax savings. Establish a regular contribution schedule early in the year, while taking into account new maximum contribution limits (on the chart to the right). And if you're working, make sure to take full advantage of your employer's retirement matching program.

3. Create your investment strategy.

The beginning of the year is a great time for you to conduct a review of your investment portfolio. For example, you may wish to match stock sales with gains against sales of stocks that are held at a loss. Or harvest stock losses at the beginning of the year and repurchase them later in the year to avoid the IRS wash sale rules. Also consider tax-efficient distributions out of retirement accounts after reaching age 59 ½.

Find out more about creating an effective tax strategy using these tips and others when you call to set up a tax strategy planning appointment. ❑

What's new in 2019

PROVISION	2019	2018
Personal exemption	Suspended through 2025	Suspended through 2025
Standard deduction		
• Single	$12,200	$12,000
• Joint returns and surviving spouses	$24,400	$24,000
• Married filing separately	$12,200	$12,000
• Head of household	$18,350	$18,000
• Additional for elderly or blind (married)	$1,300	$1,300
• Additional for elderly or blind (single)	$1,650	$1,600
Alternative minimum tax exemption		
• Single	$71,700	$70,300
• Married, joint	$111,700	$109,400
• Married, separate	$55,850	$54,700
Social Security earnings limit		
• Under full retirement age	$17,640	$17,040
• Full retirement age	No limit	No limit
• Maximum wages subject to Social Security tax	$132,900	$128,400
Estate tax top rate	40%	40%
Estate tax exclusion	$11,400,000	$11,180,000
Annual gift tax exclusion (per donee)	$15,000	$15,000
Contribution limit		
• HSA for single	$3,500	$3,450
• HSA for family	$7,000	$6,900
• HSA additional for 55 or older	$1,000	$1,000
• IRA for those under age 50	$6,000	$5,500
• IRA for those 50 and over	$7,000	$6,500
• SIMPLE plan for those under age 50	$13,000	$12,500
• SIMPLE plan for those 50 and over	$16,000	$15,500
• 401(k) plan for those under age 50	$19,000	$18,500
• 401(k) plan for those 50 and over	$25,000	$24,500
"Kiddie tax" threshold	$2,200*	$2,100*
"Nanny tax" threshold	$2,100	$2,100

*Starting in 2018, this income to be subject to trust and estate tax rates.

As you plan for 2019, be aware that Congress may make changes to the tax code. Call prior to making major business and personal financial decisions so that current rules and pending changes can be considered. ❑

It's time to create your succession plan

Creating an effective succession plan is one of the most important things you can do for your business, as well as for others who care about it. By focusing on some of the most critical elements, you can avoid getting overwhelmed by the challenge. Consider these essential steps:

▶ Determine your options

Often, business owners want to pass the business on to their children or other family members. If you're considering this, have a frank discussion with your family to find out who wants to take on the business, as well as if they are willing to and have the capacity to do so.

You still have options if there is not an obvious business successor in your family. You may want to ask an existing employee to run the business while you retain ownership, or sell the business to your employees. You may also choose to sell the business to an outsider.

▶ Make your business appealing to buyers

If you decide to sell your business, you'll need to get your affairs in order ASAP. That may mean providing a plan to boost your sales and cash flow by liquidating overstock inventory or retiring burdensome debt if your business isn't doing as well as planned. Creating a track record of increasing sales and improved profit margins will maximize the value of your business.

▶ Create a valuable team

You will need the right people on your team to execute your succession plan. Financial experts can help review and create succinct, understandable financial statements. A trusted lawyer can work with you on necessary legal documents and help you negotiate terms of a potential sale or ownership transfer. And a knowledgeable business broker can properly value the worth of your business and help position your firm for a potential sale.

▶ Construct a solid buy/sell agreement

Not all business transitions are planned. Sometimes an owner wishes to quit, becomes disabled or passes away. Your succession plan needs to account for unplanned events. The best way to be prepared is to create and maintain a buy/sell agreement. This agreement spells out how assets and other business interests will be distributed should an owner wish to exit the business.

An effective agreement will include guidance about transferring assets, stock ownership control and voting rights during certain events, like an owner retiring. It will also include how the business will be valued, as well as lump-sum and buyout payment provisions.

▶ Think through your transition

Your age, health, retirement goals and the readiness of a successor are all factors that will shape your transition plan. Take some time to think about issues, like whether you need retirement income from the business or if you mostly want to minimize estate taxes. This step will help you determine if you should maintain some involvement with the business or make a clean break. ❑

For details or assistance, call BKC, CPAs, PC (908) 782-7900 or (856) 769-4657