UPDATE

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Find Us

Don't Miss Out on Year-End Tax Planning Assistance

With most of the changes from the Tax Cuts and Jobs Act going into effect this year, it's a new day for tax planning. To save the most, you need to become familiar with the changes and be sure you're taking advantage of every tax break you're entitled.

This is exactly what our Tax Planning Guide is designed to help you do. We will not be mailing hard copies of the Guide this year, but instead providing a robust guide for tax as well as other planning topics. **To use the guide, simply visit our website at www.dwightdarby.com**, where you can navigate to the guide and learn about important tax law changes and ways to minimize your income tax liability. As you look through the guide, please note the strategies and tax law provisions that apply to your situation or that you would like to know more about.

As our clients, you know that at Dwight Darby & Company, our professionals are thoroughly familiar with the latest tax law developments and tax-reduction strategies and are eager to help you take full advantage of them. If you would like to schedule an appointment, please do not hesitate to call.

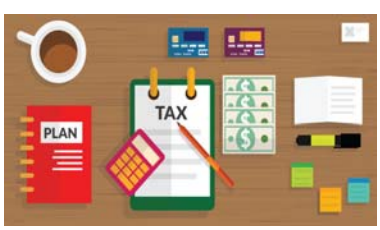
Client organizers will as always be mailed by mid-January. Organizers are a great tool for preparing your tax information and help the staff thoroughly understand your situation.

2018 Year-End Tax Planning Topics

Bill McVicar

Corporate and General Business Provisions

- New 21% corporate tax rate, repeal of corporate AMT (taxpayers with AMT credit can still use the credit to offset regular tax and claim refunds) and new NOL use limitations (80% of taxable income, repeal of two-year carryback, indefinite carryforward)
- Increased immediate expensing under Section 179 (up to $1M), new phase-out threshold amount ($2.5M) and expanded definition of "qualified real property"
- 100% bonus depreciation on qualified property (phased down after 2022) and expanded definition of qualified property (including used property)



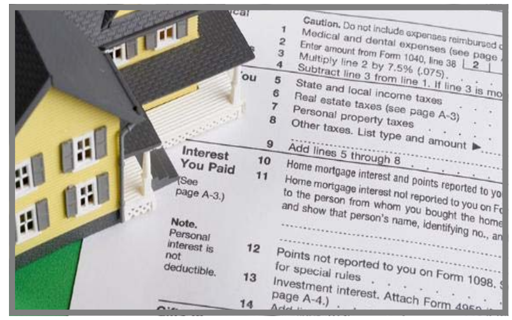
- Repeal of Section 199 deduction for domestic production activities
- Repeal of deduction for entertainment activities, membership dues, and certain employee transportation fringe benefits

Flow-through Entities and Real Estate Businesses

- New 20% pass-through (Section 199A) deduction on certain qualified business income – businesses that are structured as pass-through entities, such as partnerships, LLCs, S corporations and sole proprietorships, may qualify to deduct annually as much as 20% of US sourced "qualified business income" (QBI) that flows through to their owner's personal tax returns. The deduction is subject to several restrictions, based on taxpayer's lines of business and their taxable income. **Continued on pg. 3**

Mortgage Interest Deduction Under the Tax Cut and Jobs Act rules

Dawn Lopez



The Tax Cut and Jobs Act (TCJA) reduces the limit on the amount of the mortgage interest deduction through 2025. Beginning in 2018, for mortgage debt incurred after December 15, 2017, a taxpayer generally can deduct interest only on mortgage debt of up to $750,000, or $375,000 for separate filers. (For debt incurred on or before that date, the debt limit remains at $1 million or $500,000, respectively.)

The congressional conference report on the law stated that it also suspends the deduction for interest on home equity debt. And the actual bill includes the section caption “DISALLOWANCE OF HOME EQUITY INDEBTEDNESS INTEREST.” As a result, many people believed the TCJA eliminated the home equity debt interest deduction.

On February 21, 2018, the IRS issued a release (IR 2018-32) explaining that the law suspends the deduction only for interest on home equity loans and lines of credit that aren’t used to buy, build or substantially improve the taxpayer’s home that secures the debt. In other words, the interest isn’t deductible if the home equity debt is used for certain personal expenses, but it is still deductible if it’s used in a way that allows it to qualify as acquisition debt, such as if the proceeds go toward a new roof on the home that secures the debt.

The IRS further stated that the $750,000 limit applies to the combined amount of mortgage and home equity acquisition debt.

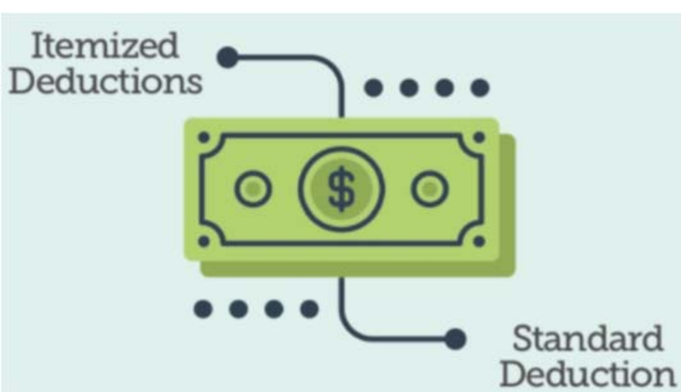
EXEMPTIONS AND STANDARD DEDUCTIONS OUTLINED, HOW WILL IT AFFECT YOU

Pam Mattox

Standard Deductions – Under the new law, the standard deduction is increased to $24,000 for married filing joint, $18,000 for heads of household, and $12,000 for singles and married taxpayers filing separate. It is expected that most taxpayers will no longer itemize deductions given the increased standard deduction available. The standard deduction will be indexed for inflation after 2018.

The increased standard deduction will free many taxpayers who previously itemized from the recordkeeping that was sometimes difficult.

Taxpayers will still be able to itemize if they have deductions that exceed the increased standard deduction. Taxpayers that do itemize should be aware that changes also occurred to the allowed itemized deductions. State and local taxes, foreign real property taxes, mortgage interest deductions, charitable contributions and others have new rules.



Exemptions – Under the new law, deductions for personal exemptions is suspended. So, starting in 2018, taxpayers can no longer claim personal or dependency exemptions. After 2018, it is expected the rules for withholding income tax on wages will change.

You will continue to list your dependents on your personal return even though the personal exemption is eliminated. You will need to list the dependents so that you can claim credits such as the child tax credit, dependent care credit and tuition and education credits. The IRS will still verify that you are eligible to claim these credits.

For more on this subject and other tax planning issues, refer to the annual Tax Planning Guide found at www.dwightdarby.com

Continued from cover

- Qualified Opportunity Zones – temporary (and some permanent) deferral of capital gains reinvested in Qualified Opportunity Funds (QOF) and permanent exclusion of gains from sale of investment in QOF after 10 years of ownership.
- Section 1031 like-kind exchanges – nonrecognition treatment limited to real properties, but it may be possible to mitigate unfavorable impact on personal property by using immediate expensing provisions.
- Cost segregation studies are now more beneficial than ever due to new bonus depreciation rules (i.e., used personal property and land improvements are now eligible for 100% bonus depreciation).
- Repeal of local lobbying expense deduction.

Individual provisions

- Changes in tax rates, larger standard deductions (but no personal exemptions), no phase out of itemized deductions, larger AMT exemptions and child tax credit.
- Elimination of miscellaneous itemized deductions, including portfolio deductions, but some planning including use of investment management LLCs may still be available.
- Mortgage interest deduction limited to interest on $750,000 of acquisition indebtedness (but certain mortgages are grandfathered).
- State and local tax deductions limited to $10,000, but taxes on property used in a trade or business or held for investment may still be deductible.
- Increased depreciation deduction for certain luxury passenger automobiles.
- Section 529 qualified tuition plans can now be used not only for college tuition expenses but also for K-12 tuition expenses up to $10,000 per year.
- Estate and gift tax – basic exclusion amount increased to $10M, indexed for inflation after 2011.

DOUBLE THE CREDIT WITHOUT DOUBLING THE KIDS!

THE NEW CHILD TAX CREDIT EXPLAINED

Rick Vernal

Starting in 2018, the new tax law doubles the child tax credit to $2,000 per qualifying child under the age of 17. Additionally, under the new law, the refundable portion of the credit is increased to a maximum of $1,400 per qualifying child. A qualifying child for the credit can be your son, daughter, stepchild, foster child, brother, sister, stepbrother or sister, half brother or sister, or a descendant of any of them. Additionally, the child must have lived with you for more than half of the tax year, and not provided over half of their own support. The child must also be claimed as a dependent on your tax return and they cannot file a joint return for the year.

The new law also allows for a new $500 credit, per individual, for any other dependents other than qualifying children under age 17 claimed on your tax return. There is no age limit for the $500 credit, but certain tests for dependency must be met. This new $500 credit is nonrefundable. An individual must be a U.S. citizen, a U.S. national, or a U.S. resident alien to be eligible for the $500 credit, or the full credit described above.

The new law also increases the phase-out thresholds for the credit. Beginning in 2018, married couples filing jointly can have adjusted gross income up to $400,000 (up from $110,000 under the old law) before the credit is reduced. The threshold is $200,000 for single filers and other taxpayers. The credit is reduced by $50 for every $1,000, or part thereof, by which adjusted gross income exceeds the threshold. The new higher thresholds will allow more taxpayers to take advantage of the credit, who under the previous law were ineligible due to their income being too high.

THE MILLION DOLLAR IDEA

Sharon Sibilia

Want to jump start your child's retirement with a million-dollar tax-free account? Consider this:

As soon as your child begins to earn income, open a Roth IRA and set a contribution goal to reach before they graduate from high school. Assuming an eight percent expected rate of return, the investments made by age 19 will grow to FORTY times its value by the time they reach 67 (current full retirement age). For example, $2,500 invested before graduation will be $100,000 at retirement. If you can bump that up to a $25,000 investment before graduation, at retirement it will be worth $1 million!

<u>Why it works</u>

Compounding interest occurs when interest is earned on the interest generated from the initial contribution. The more time the investment has to grow, the more exponential growth will occur. By starting to save prior to graduating from high school, the investment will have almost fifty years of compounding growth.

Even better, while contributions to Roth IRA's must be after-tax contributions, any earnings are TAX-FREE as long as the rules are followed! Simple to say, but how do you get $25,000 into a child's Roth IRA? Here are some tips.

<u>Tips to achieve the goal</u>

- Hire your child. Roth IRA contributions are limited to the amount of income your child earns, so earned income is key. If you own your own business or even make some money on the side, consider hiring your child to help with cleaning the office, filing or other tasks they can handle.
- Look for acceptable young age work ideas. Babysitting, yard work, walking pets, shoveling, and lawn work are all good ideas to get your child earning some income at a younger age. Cash based income is harder to prove, so don't forget to keep track of the income and consider filing a tax return, even if not required.
- Leverage high school years. Ages 15-18 will be when your child has their highest earning potential before graduation. Summer jobs, internships and part-time jobs during the school year can produce a consistent income flow to contribute to the Roth IRA and still provide spending money.
- Parent or grandparent matching idea. The income earned by your child doesn't have to be directly contributed by them to the Roth IRA – it simply sets the contribution limit. Make a deal that for every dollar of income your child saves for college, a parent or grandparent contributes a matching amount to their Roth account. College and retirement savings in one!

By helping your child get a head start on saving, it should ease any anxiety regarding retirement and help them focus on school, starting their career, and other personal development goals. If you have questions about Roth IRA's or any other tax-related issues, please call to discuss them.

REMEMBER YOUR DIGITAL ASSETS

Dawn Lopez

Don't forget to consider your digital assets in your estate planning. For example, Facebook defaults to memorializing your account but you can appoint a 'legacy contact" to change, delete, memorialize or download. What about your google accounts, pictures, and emails? Most states have enacted or introduced laws that govern how an executor can access digital assets, so please contact your attorney to ensure you have this covered.

Don't Be A Victim Of A New Sophisticated Phishing Phone Scam

Ann Orand

There are constant attempts to swindle us of our money and you should be aware of yet another sophisticated phone scam regarding your bank ATM card.

For example, a swindler will call from what appears to be the security department of your bank. Your phone/cell phone will show the 800-number listed on the back of your ATM card. The caller will identify him/herself as a fraud department agent and say that your card had been used for purchases somewhere, most likely, not near you. He will read your social security number to verify your identity. The call will seem legitimate, especially if this has happened to you before. Next, he will ask you to verify the card's security code and then may read, seemingly authentic, disclosures related to obtaining a replacement card. The caller then asks you to key in a new personal identification code for the new card via your phone. There are no prompts, you will be pressing numbers which he hears on the other end. He then asks you to key in your current PIN number. This is where red flags should go up, and you should end the call. Banks already know your PIN number and should not ask for that information. Do not be shy about confronting a suspected scam caller.

Unfortunately, phishing scams like these are all too common and the fraudsters can be convincing. If you receive a call seeking information or access to an account, hang up and call the financial institution using the number on the back of the card or the bank's website.

"Do not provide your account information or social security number to anyone that contacts you by phone or online," states the American Bankers Association. Also, use a combination of numbers and letters in creating your passwords and change them often. These are a few things to consider to keep your finances and identity safe.

Thieves are getting smarter, which means we need to be one step ahead of them.

Holiday Gift Ideas for Your Accountant

Coffee… any brand, the stronger the better

Pencils… (actually no, we don't use anymore –thank you, technology!)

Ear buds… for tuning out chatty co-workers

Alcohol… Any flavor

Case of white-out tape… for those clients always changing their minds

Assorted snacks… especially anything with sugar or salt

"Accountant's Work Their Assets Off" tee shirt…

preferably in black with white letters

More Alcohol… tax season is coming!

Baked Goods… more SUGAR!

Newest fad diet book… for when tax season is over

Closing Entries

ANNIVERSARIES

The following Dwight Darby & Company employment anniversaries will be occurring this winter:

Kathy Tushaus – 24 years in February

Pam Mattox – 11 years in January

Dave Bove – 8 years in January

Bill McVicar – 1 year in January

Holiday Office Hours

The office will be closed for the following Holidays:

Thanksgiving: Thursday, November 22nd and Friday, November 23rd

Christmas: Monday, December 24th and Tuesday, December 25th

New Year's: Monday, December 31st and Tuesday, January 1st

DWIGHT DARBY & COMPANY WISHES EVERYONE A HAPPY HOLIDAY SEASON!

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