Aiming To Maximize Deductions? 

**TAXES 2019**

BY DAVID CARAVIELLO

CTW FEATURES

Under the new federal tax code, the ability to deduct certain reimbursed work expenses is gone. So is the ability to deduct state income tax, property preparation fees, investment advisory fees, and divorce. So is the ability to deduct state and local taxes over $10,000 or work-related moving expenses for non-military members, or home equity loan interest without any source. 

In 2019, the question for taxpayers looking to maximize their deductions isn’t so much what’s available, but—what’s left? “The average taxpayer is going to find there’s a lot less room for maneuvering in 2019,” says Morris Armstrong of Armstrong Financial Strategies in Cheshire, Conn., and a member of the National Association of Enrolled Agents. “They’re going to have to do their homework a bit smarter about how they do it. Various deductions and categories that have been used in the past have been eliminated, offset, reduced, under the new tax code. For the consumer, it’s a different game.”

Under the new tax code, the standard deduction was increased based on income level, for both individuals, and from $13,000 to $24,000 for married couples. But for the 1 in 3 taxpayers who itemize, there are substantially fewer options available in which to claim deductions exceeding the amount of the standard deduction, and keep additional dollars. Among the eliminated or curtailed categories likely to impact the most people: capping deductions on state and local taxes at $10,000; limiting deductions for personal and dependents' itemized deductions to those in present-deductible-death annuity; disallowing deductions for home equity loan interest not connected to home improvement; and eliminating deductions for unreimbursed work expenses exceeding 2 percent of gross adjusted income.

“We’re talking people like those who use their car for business, and don’t get reimbursed for their mileage,” says Valerie Finello, a master tax advisor for H&R Block in Orlando, Fla. “That was over 30,000 miles a year. If you’re driving 30,000 miles a year, you’re taking it over a six-mile deduction. That’s going to be the biggest hit for people who have large deductions.”

What remains? Medical expenses are still deductible, but not for people who have health insurance through work and pay for it with pretax dollars. That leaves charitable donations, in which the new tax code raised the cap from 30 percent of adjusted gross income to 60 percent—an immediate threshold for most. “In my market, I don’t ever see anyone giving up to 30 percent of their income away,” Finello says. One strategy is to combine several years’ worth of charitable donations to be carried forward into the next several years, “Armstrong says. “But for many people, there’s going to be a lot of daylight between the standard deduction and the amount of deductions they have.”

Those 70½ years of age or older with IRA accounts can roll their retirement contributions into a charitable donation, affording them both a write-off and the ability avoid reporting the withdrawals as income. And capital gains losses that are carried forward (limited to 50 percent annually) can offset gains made by selling stocks, according to Cindy Hockenberry of the National Association of Tax Preparers. Hockenberry also advises to consider fronting every other year. “They kind of have a trick for people who were sitting right on the edge of the standard deduction. They can choose to front their deductions for one year and maybe get a better deduction,” she says. “Now, that’s harder to do, because they close them to a standard deduction.”

Charitable donations can be made the same way, says Hockenberry, the NATP’s director of research and government relations. “If you want that deduction, do it every other year,” she says. “If you want to spread it out, do it in January and December.”

But such strategies are fewer and farther between for 2019. “You’ve removed categories, probably categories where people may have been more creative than they should have been,” Armstrong says. “This will help reduce some of the tax fraud, hopefully. But for the honest taxpayer, it’s harder.”

All of which emphasizes rethinking our relationship with the IRS. “If you have a bucket and say, ‘Well, standard deduction is higher, tax rate is lower, you’re going to get a bigger refund. Well, maybe not.’

The idea is that they’re going to make up for (fewer itemized deductions) because the tax rates are going to be lower and their standard deduction higher, and they’re not going to suffer a hit. But I would caution people to not fall into the belief, because every other year will be lower and their deductions will be lower, and they might get a better deduction,” Hockenberry says. “You can’t just throw people in and say, ‘Well, standard deduction is higher, tax rate is lower, you’re going to get a bigger refund. Well, maybe not.’

The Greeneville Sun

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Tuesday, February 12, 2019

GreenevilleSun.com
A New Tax Era

By Barry Waldman
CTW Features

The tax reform plan passed by Congress and signed by the President last year is changing over America’s taxes in 2018. Your tax bill is going to go down. Or up. Or stay the same. In-between that, it’s complicated.

According to the Tax Foundation, the tax code now consumes 11.2 percent of wages — enough to fill 137 novels. Let’s boil it down in a few hundred.

Good News for Most

First, your family is likely to benefit because most American households will pay less in federal income taxes in 2018 than they did in 2017. Generally speaking, the more income, the more you will save. On the other hand, if you have a large family, or itemizing your expenses last year, you may see it rise.

The big change in 2018 is the dynamic change in the top tax deduction. It nearly doubles to $24,000 for a married couple in 2018 and to $12,000 for an individual and their deduction. It nearly doubles to $24,000 for a married couple in 2018 and to $12,000 for an individual and their deduction. It nearly doubles to $24,000 for a married couple in 2018 and to $12,000 for an individual.

In 2017, roughly 23 percent of Americans itemized their expenses on their tax return in 2017. In 2018, however, the rate of itemizers will drop significantly this year. For most Americans, mortgage interest, charitable contributions, medical expenses and other costs will no longer have any impact on their taxes.

Because the tax code is never simple, the repeal in the standard deduction is countered to some degree by the elimination of the 3.8% personal deduction for each person in your household. That is why large families may find themselves paying more. But at the same time, the elimination of the Children Tax Credit in a moment will ensure that many families will find themselves paying less. That is why large families may find themselves paying more. But at the same time, the elimination of the Children Tax Credit in a moment will ensure that many families will find themselves paying less.

Lower Tax Rates

The tax rates themselves have also been altered except at the very bottom and top brackets. If you were a single filer with an adjusted gross income (AGI) of $50,000 would see their taxes decline by 13.7% this year.

In order to prevent tax reform from reducing more than $1.5 trillion to the national debt over the first 10 years, lawmakers had to impose a cap on itemized deductions. That means that while many high-income families in the North East and West Coast will pay less, states like New York and California will be hit the hardest. That means that while many high-income families in the North East and West Coast will pay less, states like New York and California will be hit the hardest.

The amount exempted from estate taxes will primarily affect upper-middle-class families in high tax states.

As of 2018, $4,050 personal deduction for non-child care expenses; that number is expected to drop significantly this year. For most Americans, mortgage interest, charitable contributions, medical expenses and other costs will no longer have any impact on their taxes.

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On the other hand, the elimination of estate taxes will no longer be deductible.

The bottom line: an individual with an AGI of $50,000 would see their taxes decline by 13.7% this year.

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Home Is Where the Taxes Are

BY MARILYN KENNEDY MELIA
CTW FEATURES

Homeowners: This April tax filing will be different. If you have relatively low property taxes and mortgage interest charges, you are likely to take the “standard deduction” rather than itemizing as you have in the past. That’s because the new tax law nearly doubles the standard deduction to $12,000 per individual, $24,000 for married couples. And it limits itemized deductions for state and local taxes— which includes property taxes—to $10,000. The law allows deduction of interest on mortgage debt up to $750,000, for loans taken out after December 15, 2017, but retains interest deductions for up to $1 million in mortgage debt taken previously.

So, married homeowners who previously had itemized deductions for $12,000 of interest on a $300,000 mortgage, $5,000 in property tax, $4,000 for state income taxes and $1,000 in charitable donations should consider itemizing by taking the $24,000 standard deduction. What’s more, notes Dave Baldwin, a Phoenix-based CPA, “Taking the standard deduction should be easier and probably less expensive [for a professional] to prepare.” But in this unfamiliar, new tax landscape, experts say homeowners have issues to consider:

1. **YOU MIGHT ITEMIZE ON YOUR STATE RETURN.** Usually, says Baldwin, state income tax rules mirror federal rules. But many states “have not yet adopted” the new law. “You might save by itemizing your state return,” he adds.

2. **CONSIDER ‘BUNCHING’ YOUR CHARITABLE DEDUCTION.** Many homeowners will find that their annual charitable contributions aren’t high enough to make itemizing worthwhile. Donald Zidik, CPA and director at Marcum LLP, explains that “bunching”— making little or no contribution one year and then making a large one the following year— could allow them to save by itemizing for the large contribution year.

3. **KEEP HOME IMPROVEMENT RECEIPTS.** If you take a home equity loan or take “cash-out” when refinancing, interest is only deductible on amounts you use for home improvements.

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Whether you're an individual who needs help with your tax returns or a small business working with an accountant, if you're going to put your taxes right this year, you have to pull most of the weight. That means you can't be a slacker who just hands all over all responsibility to your tax professional. Your accountant can help you minimize your tax burden, but only if you help yourself. Those are six items your tax preparer wants you to understand to help him or her provide the best service possible.

1. Start Thinking About Your Taxes Now

You want to be thinking about all of this before your taxes are due to avoid the Robert H. Grinnell tax return reference code. It will be way too late. The time to consider what you should do to lower your taxes is the beginning of the tax year. Consider whether you should frontload some expenses to fall in a higher income year, or wait on a smaller tax deduction to fall in a lower income year. Consider whether you should try to get a new job that raises your income, or lower your income by spending less on items that don't give you the same tax break.

2. Document Your Expenses

You need to keep records of your income and expenses. If you don't keep track of that, your accountant can't make educated guesses on how you have your taxes done right to be prepared. That will give your tax professional time to find the gaps and tax breaks for which you might be eligible.

3. Big Changes Come in 2018

Did you itemize less than $8,400 in expenses last year? Then you probably won't be itemizing this year. Did you deduct a non-child dependent in your household? You can claim them this year. These are just two of the many changes to the tax code that are going into effect this year. Are you ready for them?

4. The IRS is Not Your Friend

The IRS is very stingy about giving the rules and they don't have time to go into detail of your transactional life just for courtesy's sake. The IRS demands it if they are going to ask for it, even if it doesn't make any sense. Tax time is already even if you are receiving a refund. You can't afford to avoid it, but you can minimize it by being proactive and working with your tax preparer.

5. Health Insurance Is Undergoing Big Change

Health insurance is one of the big changes to the health care law. The mandate disappears in 2019, you won't be eligible. Remember that if you panic in 2019 and don't have health insurance soon. The first step in calculating your tax liability. Will you be eligible.

6. Act on Your Bad Advice

Ignore the IRS tax preparer's help line regular, and courts have ruled that if you act on their bad advice, it's still zero. The IRS itself has acknowledged that they give the wrong advice on their help line regularly. They can't really act on their bad advice, it's still their fault and you must pay back taxes, penalties and fees. Forget that and hire an accountant or registered tax preparer to help with your taxes. Do with every thing, you get what you pay for. If your tax preparer makes a mistake, they may at least share some of the liability.

6 Things Tax Professionals Wish Everyone Knew

Walk-ins should consider changing your health insurance mandate is gone new tax break. For example, the

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