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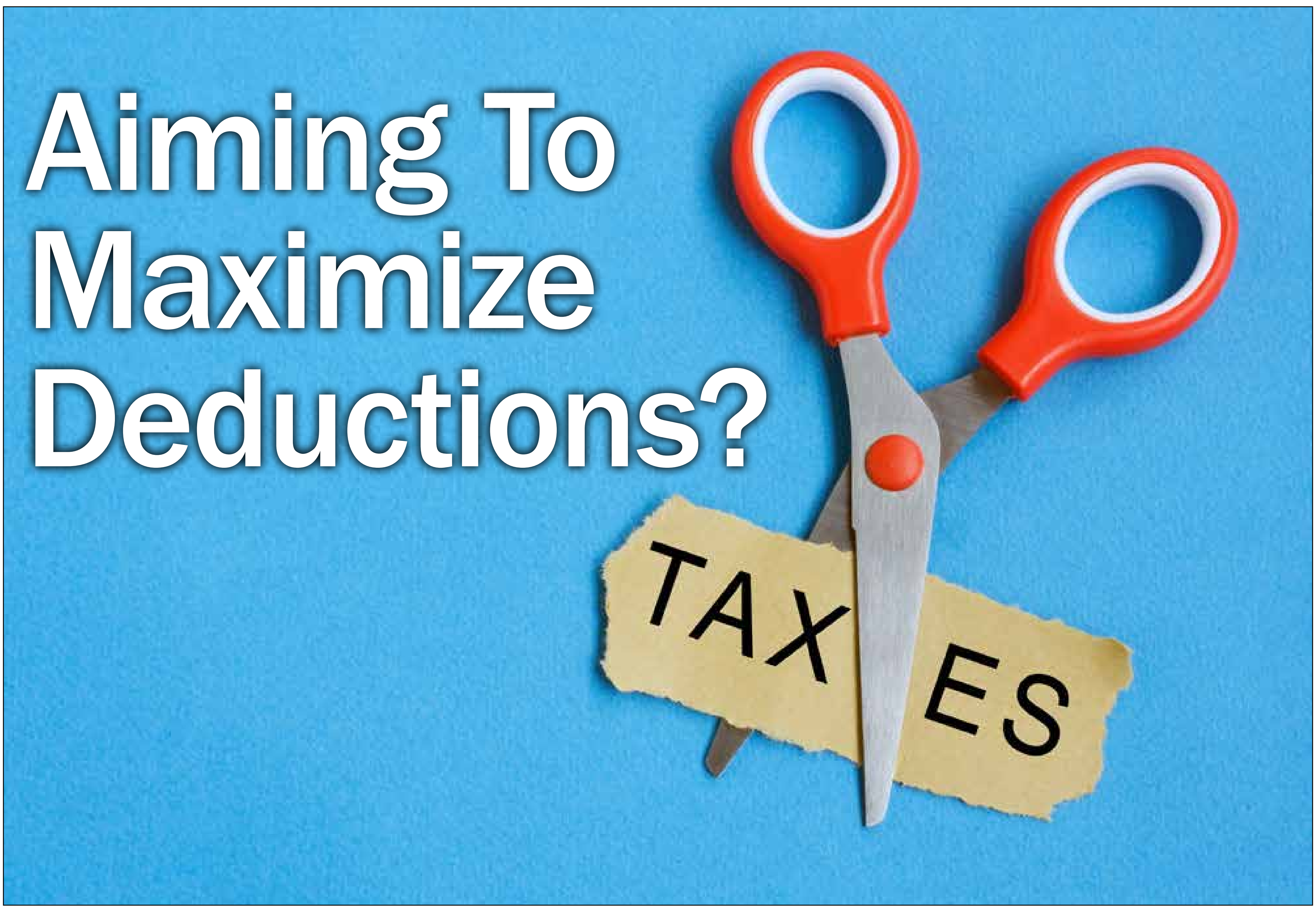

Itemization ‘A Different Game’ For Taxpayers In 2019

BY DAVID CARAVIELLO
CTW FEATURES

Under the new federal tax code, the ability to deduct unreimbursed work expenses is gone. So is the ability to deduct union dues, tax preparation fees, investment advisory fees, and alimony. 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 restrictions.

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 them to look at deductions,” 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 be a bit smarter about how they do it. Various deductions and categories that have been used in the past have been eliminated, effectively, under the new tax code. For the consumer, it’s a different game.”

Under the new tax code, the standard deduction was increased from $6,350 to $12,000 for 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 people impacted by natural disasters to only those in presidentially-declared disaster areas; disallowing deductions on 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 50 cents a mile. If you’re driving 50,000 miles a year, you’re talking over a $10,000 deduction. I think that’s going to be the biggest change for people who have itemized in the past.”

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, for which the new tax code raised the cap from 50 percent of adjusted gross income to 60 percent – an unrealistic threshold for most.

“In my market, I don’t ever see anyone giving up to 50 percent of their income away,” Finello says.

One strategy is to combine several years’ worth of charitable donations, and give them all in the same year. “If you have the wherewithal to take your charitable contributions, come up with say $15,000, and bunch them all into one year, you’ll capture that write-off in one year and still get the benefit of the standard deduction over 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 minimum required withdrawal into a charitable donation, affording them both a write-off and the ability avoid reporting the withdrawal as income. And capital gains losses that are carried forward (limited to $3,000 annually) can offset gains made by selling stocks, according to Cindy Hockenberry of the National Association of Tax Preparers.

Hockenberry also advises to consider itemizing every other year. “That’s kind of been a trick for people who were sitting right on the edge of the standard deduction amount, so they could maximize their expenses every other year and maybe get a better deduction,” she says. “Now, that’s harder to do, because they close to doubled the standard deduction.”

Charitable donations can be made the same way, says Hockenberry, the NATP’s director of research and government relations. “If you really 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 reducing taxable income, by placing money into an IRA, 401(k), or flexible spending account used for health care costs. The new tax plan was sold with the belief that most would benefit from lower tax rates and higher standard deductions – but consult with a tax expert before making that assumption.

“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 everything is specific to their situation,” Hockenberry says.

“You can’t just throw people in a bucket and say, ‘Well, standard deduction is higher, tax rate is lower, you’re going to get a bigger refund.’ Well, maybe not.”

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 every American's taxes in 2018. Your tax bill is going to go down. Or up. Or stay the same.

As with everything that involves taxes, it's complicated.

According to the Tax Foundation, the tax code now consumes 10.1 million words – enough to fill 157 novels. Let's boil it down in a few hundred.

Good News for Most

First, your family is likely to benefit. Three-quarters of American households will pay less in federal income taxes in 2018 than in 2017. Generally speaking, the more you earn, the more you will save. On the other hand, if you have a large family, or itemized your expenses last year, you may see a tax hike.

The big change in 2018 is the dramatic increase in the standard deduction. It nearly doubles to $12,000 for an individual and $24,000 for a married couple filing jointly. That means right off the top, more of your income is excluded from taxes.

It also means the bar will be raised for itemizing expenses to pay off in reduced tax liabilities. In 2017, roughly 23 percent of Americans itemized their expenses; that number is expected to drop significantly this year. For millions of 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 spike in the standard deduction is countered to some degree by the elimination of the $4,050 personal deduction for each person in your household. That is why large families may find themselves paying more. But that is partly offset by a doubling in the Child Tax Credit to a maximum of $2,000 each. There is also a tax credit of $500 for non-child dependents. The upshot is that for the vast majority of Americans who take the standard deduction, federal income taxes should decline.

Lower Tax Rates

The tax rates themselves have also been shaved except at the very bottom and top brackets. If you were a single filer with an adjusted gross income (AGI) of $37,951-$91,900 last year, you were in the 25 percent tax bracket. This year, the bracket is taxed at 22 percent and affects people with AGI of $38,701-$82,500. The same for married couples filing jointly, but with income amounts doubled. The bottom line: an individual with adjusted gross income of $50,000 would see their taxes decline by $57.69 in their bi-weekly paycheck.

In order to prevent tax reform from adding more than $1.5 trillion to the national debt over the first 10 years, lawmakers had to add provisions that hiked some people's taxes. A new $10,000 limit on how much filers who itemize can deduct on their state income, sales and property taxes will primarily affect upper middle-class families in high tax states.

On the other hand, the upper limit on itemized expenses of $25,000 has been eliminated. That means that while many high-income filers in the Northeast and West Coast will pay more, this tax reform is a bonanza for the wealthiest Americans.

Complicated new rules also apply to home mortgage interest deductions on loans of more than $750,000. Home equity interest will no longer be deductible.

The amount exempted from estate taxes has more than doubled to $11.2 million. If you are subject to the 40% tax rate on inheritance above that, you probably should be celebrating.

The Impact on Health Insurance

You have probably heard a lot about the Affordable Care Act and the mandate to maintain health insurance. That mandate is eliminated in 2019, but remained in effect this year. If you didn't have health insurance in 2018, you may have to pay a penalty on your 2018 tax return.

There is lots of good tax news for businesses in 2018. Self-employed individuals may qualify for a 20% reduction in income taxes, but not in self-employment taxes. If you're eligible for that deduction, you can access it whether you itemize or take the standard deduction.

For other businesses, the top corporate tax rate plummets to 21 percent from 35 percent previously. In addition, the corporate alternative minimum tax has been eliminated.

If you're a middle-class wage earner working for an employer, you have likely already seen the benefits of tax reform in a paycheck that has slightly less taken out each pay period. For you, and for most Americans, filing your tax return in April won't be any different in 2018.

Tax & Financial Guide

Look for The Greeneville Sun's Tax and Financial Guide next appearing in our February 12 and March 12, 2019 edition.

Our latest special section touches on financial topics that matter to you. You'll find a variety of valuable articles. Plus, this section will introduce you to local tax services and tax advisors dedicated to helping you realize your financial goals.

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, $3,000 for state income tax and $1,000 in charitable contributions will save 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. But 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 iteming 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.

6 Things Tax Professionals Wish Everyone Knew

BY DAVID NIEHOFF
WEST GREENE INSURANCE AND TAX SERVICES

Whether you're an individual who needs help with your tax return or a small business working with an accountant, if you're going to get your taxes right you have to pull most of the weight. That means you can't be a blank slate who just hands over all the responsibility to your tax professional.

Your accountant can help you minimize your tax burden, but only if you help yourself. These 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 2019 Tax Load Now

If you wait until the month before your taxes are due to ask about sheltering income or taking advantage of a tax break, 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 an expenditure to coincide with a new tax break. For example, the health insurance mandate is gone in 2019. If that matters to you, you should consider changing your insurance soon.

2. Document Your Expenses Throughout the Year

The first step in calculating your taxes is keeping good records. You need to know your earnings, your investment income and your expenses. If you don't keep track of that, your accountant can't make it up for you. The easiest way to have your taxes done right is to be prepared. That will give your tax professional time to find the special tax breaks for which you might be eligible.

3. Big Changes Came in 2018

Did you itemize less than $24,000 in expenses last year? Then you probably won't be itemizing this year. Did you deduct more than $10,000 in state sales and property taxes last year? Can't do that this year. Do you have a non-child dependent in your home? You can claim them this year. These are just three of the many changes to the tax code that go into effect this year. Are you ready for them?

4. The IRS is Not Your Friend

If you call the IRS for help with your taxes, the value of their advice is exactly what you will pay them – zero. The IRS itself has acknowledged that they give the wrong advice on their helpline regularly, and courts have ruled that if you act on their bad advice, it's still your 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. As with anything, you get what you pay for. If your tax preparer makes a mistake, they may at least share some of the liability.

5. Health Insurance Is Undergoing Big Change

Although the health insurance mandate disappears in 2019, you still need proof of health insurance for everyone claimed on your tax return for 2018.

6. Asking Why Just Slows Things Down

Please don't ask your tax preparer why they need the documentation they request. They don't make the rules and they don't have time to peer into the details of your transactional life just for curiosity's sake. If the IRS demands it they are going to ask for it, even if it doesn't make any sense.

Tax time is stressful even if you are receiving a refund. You can't avoid it, but you can reduce it by preparing in advance and working with your tax preparer.

Tax & Financial Guide