Webinar: 2018 Year-End Tax Planning for Individuals & Families

Speakers for this session include:

1-CPE Credit Available

- AAFCPAs issues CPE in accordance with NASBA regulations
- To be eligible for CPE you must:
  - Submit answers to all polling questions when they pop up.
  - Complete and submit a written evaluation, which will launch at conclusion.
  - Remain logged in to the webinar for the entirety of the program (or at least 50 minutes).
- We will email CPE certificates within **two weeks** to the email address you provide.

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The Impact of TCJA on Individual Tax Planning

Loss of Exemptions

- Prior to the Tax Cuts and Jobs Act (TCJA), each taxpayer received a personal exemption (equal to $4,050)
- In addition to their own, they were also able to claim exemptions for their dependents
- Exemptions phased out depending on income; under the TCJA exemptions are removed completely

Standard Deduction

- In addition to exemptions, each taxpayer was entitled to a standard deduction. The taxpayer would choose to itemize or take the standard deduction depending on what was larger. The standard deductions prior to the TCJA were as follows:
  - Single - $6,300
  - Married Filing Jointly - $12,600
  - Head of Household - $9,300
  - Married Filing Separately - $6,300
  - Qualifying Widow(er) - $12,600

Standard Deduction

- As part of the TCJA the Standard deductions were increased as follows:
  - Single - $12,000
  - Married Filing Jointly - $24,000
  - Head of Household - $18,000
  - Married Filing Separately - $12,000
  - Qualifying Widow(er) - $24,000

Charitable Contributions

- Given the substantial increase in standard deductions, people that may have itemized in the past may not do so anymore
- This could lead to those people receiving no benefit for charitable contributions
- One way around this would be to “stack” donations.
- Use of Donor Advised Funds
- In addition, AGI limitations have increased to 60% (from 50%). Donations subject to 30% and 20% AGI limitations were not increased.

State Taxes

- Prior to the TCJA, a taxpayer was allowed to deduct state and local taxes (or sales tax if it was higher) with no caps.
- The TCJA put a cap on state and local taxes (or sales tax if higher) of $10,000.
- This poses a problem for those in states with high income/real estate taxes.

Home Mortgage Interest

- Mortgage debt limit decreased from $1 million to $750K. This is for any mortgages in service after December 15, 2017. Any mortgages prior to this are grandfathered in (Home Equity Loans are not grandfathered in).
- Home Equity debt – Generally not deductible, however if it would qualify for the mortgage interest deduction then this amount plus the original mortgage can not be above 750K.

Itemized Deductions Removed

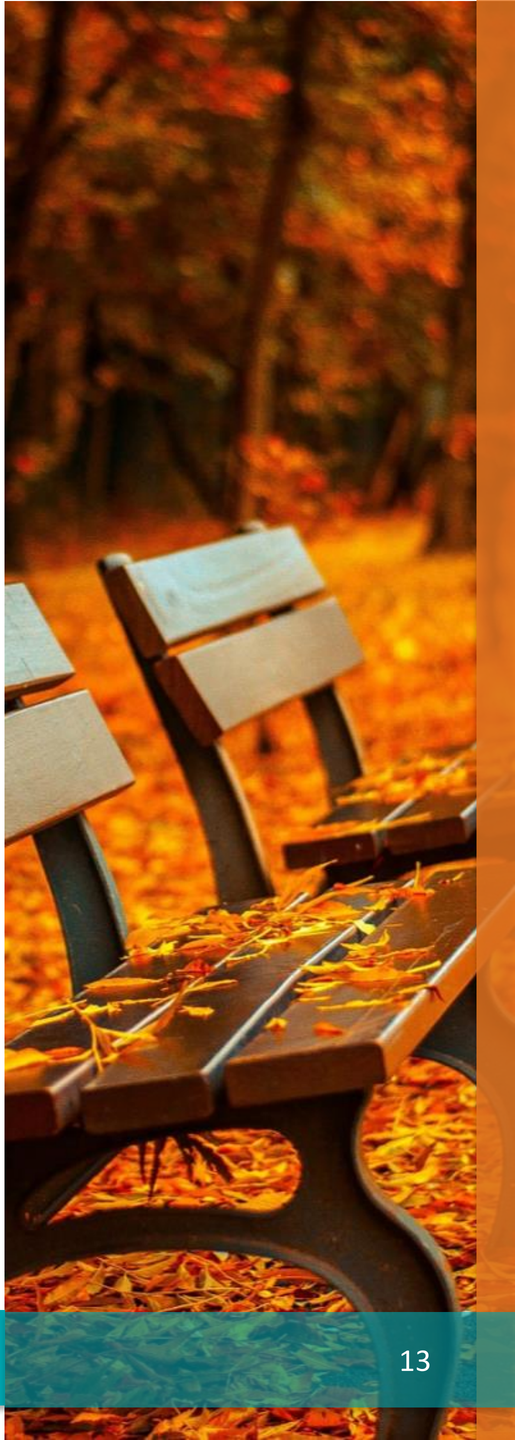
- Under the TCJA, miscellaneous itemized deductions have been removed. These consisted of the following:
  - Unreimbursed employee expenses
  - Tax prep fees
  - Hobby expenses
  - Investment fees/expenses
  - Legal fees related to producing income
  - Safe deposit box fees
  - Home office deduction*

Child Tax Credit

- Increased to $2,000 per "***qualifying child***". A portion ($1,400) is refundable
- ***Qualifying child*** is the same as the rules related to a dependent but the child must also be under 18.
- Increased Phase-Out
- Other Dependents are covered, however the credit is only $500. They must meet the definition "qualifying relative"

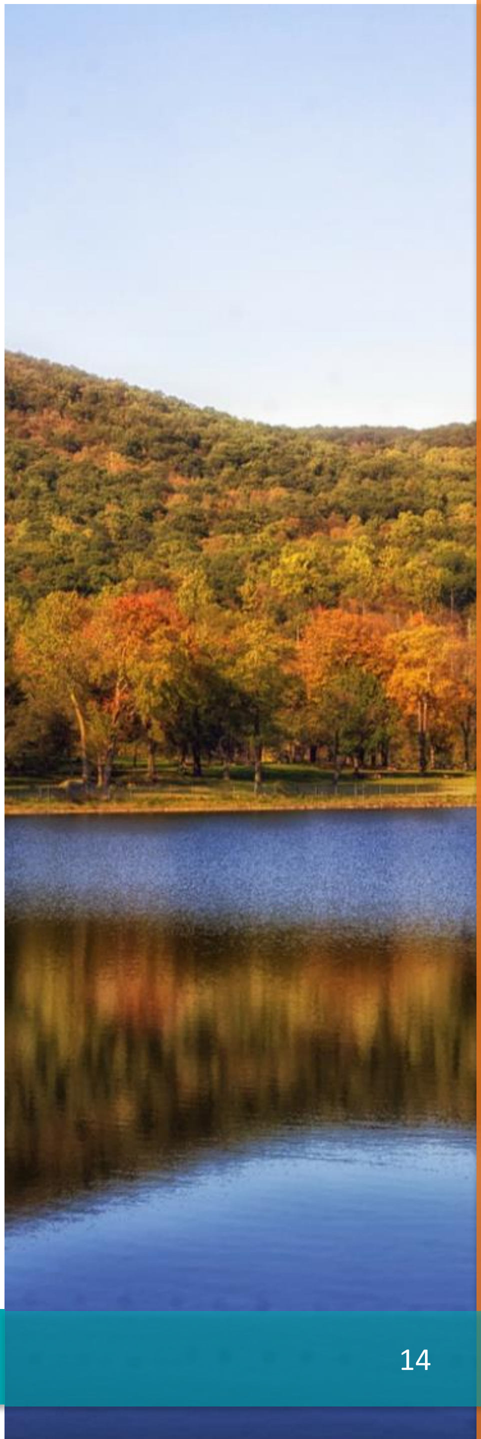
Kiddie Tax

- Prior to the TCJA, Children's ***unearned income*** over $2,100 was taxed at the parent's rate (The first $1,050 was not taxed and the next $1,050 was taxed at the child's rate)
- After the TCJA, Children's ***unearned income*** is no longer taxed at the parent's rate, but rather at trust rates.
- A trust gets into the highest bracket (37%) with more than $12,500 of income.
- W-2 Wages are not subject to kiddie tax



Alternative Minimum Tax

- Unlike Corporate Alternative Minimum Tax (AMT), Individual AMT tax was not repealed
- Less people may be subject to it going forward
  - Increased AMT Exemption
  - Cap on Real Estate Taxes
  - Removal of Miscellaneous Itemized Deduction

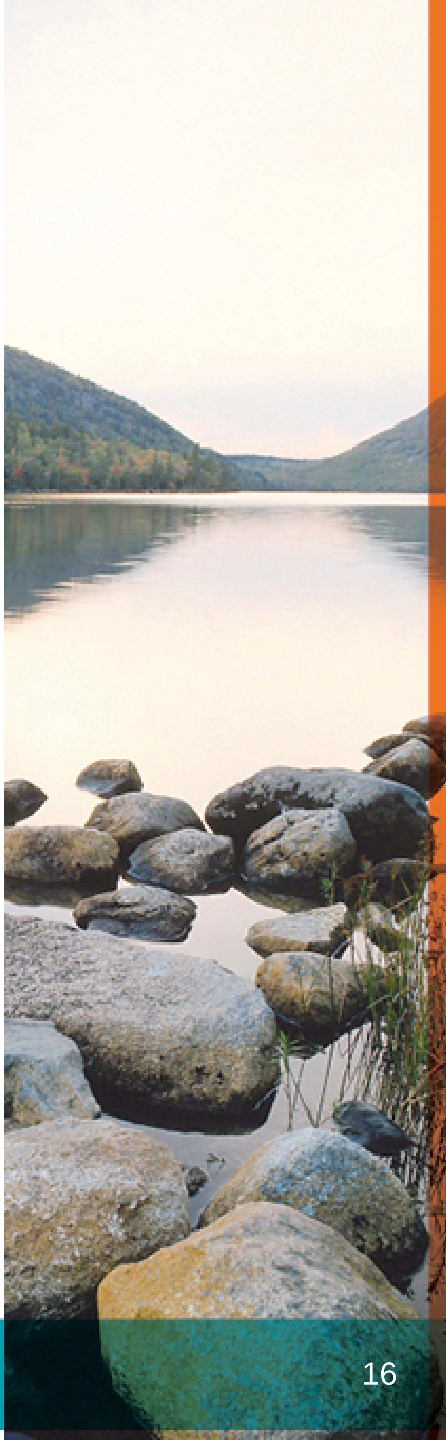


IRS New Tax Rates

Tax Rate	Single		Head of Household		Married Filing Joint		Married Filing Separately	
10%	$0 -	$9,525	$0 -	$13,600	$0 -	$19,050	$0 -	$9,525
12%	9,526 -	38,700	13,601 -	51,800	19,051 -	77,400	9,526 -	38,700
22%	38,701 -	82,500	38,701 -	82,500	77,401 -	165,000	38,701 -	82,500
24%	82,501 -	157,500	82,501 -	157,500	165,001 -	315,000	82,501 -	157,500
32%	157,501 -	200,000	157,501 -	200,000	315,001 -	400,000	157,501 -	200,000
35%	200,001 -	500,000	200,001 -	500,000	400,001 -	600,000	200,001 -	300,000
37%	Over $500,000		Over $500,000		Over $600,000		Over $300,000	

Federal Withholding Table Changes

- Greater risk for under withholding
- For those who:
  - Itemize deductions
  - Two-income households



POLL (1 of 3)

- Will you be itemizing your deductions this year or taking the standard deduction?

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Section 199A: Qualified Business Income Deduction

IRC §199A - Overview

Qualified Business Income (QBI) Deduction

- One of the biggest changes included in the TCJA
- Has a big impact on the choice of entity:
  - Allows other entity types to “compete” with the 21% flat tax rate for C corporations

QBI Deduction

What is it?

- Deduction from taxable income (TI)
  - After all other items of income and deduction
  - After computing adjusted gross income
  - After taking Standard or Itemized deductions
- It does not factor into the self-employment tax or net investment tax calculations.
- The deduction is VERY mathematically intensive and has numerous limitations, phase-ins and phase-outs.

QBI Deduction

What qualifies?

- Active trade or business (as defined by Section 162).
  - **Note:** Rental property might not be a trade or business, one exception: Self-rentals
- Available to owners of:
  - Pass-through entities (Partnerships and S-Corps)
  - Sole Proprietors (Schedule C)
  - Disregarded entities (Single Member LLC)
- Domestic activities – must be connected to business within the United States
- Must be from a "qualified business"

QBI Deduction

What is a qualified business?

- Every active trade or business with the exception of a "specified service trade or business"
- Specified Service Trade or Business (SSTB) :
  - Doctors, Attorneys, Accountants, Actuaries, financial services, brokerage services, and Consultants
  - Performing artists
  - Paid Athletes
  - Anyone who works in the Financial Services and Brokerage Industry
  - **Any trade or business where the principal asset is the reputation or skill of one or more employee(s) or owner(s)**
  - Engineers and architects are not considered SSTB!

QBI Deduction - SSTB

Can a SSTB owner claim a QBI deduction?

- IT DEPENDS!
- SSTB owners have stricter limitations and additional thresholds
- The deduction is lost if the owner makes too much money!

QBI Deduction

Here it is!

The deduction is equal to the sum of:

The lesser of:

1. **The combined qualified business income of the taxpayer, or**
2. 20% of the excess of TI over any net capital gains

Plus the lesser of:

1. 20% of qualified cooperative dividends, or
2. TI less net capital gains

Combined Qualified Business Income

It's actually a deduction!

- THE SUM OF:
  - The LESSER OF:
    - 20% of the taxpayer's **"qualified business income"** or
    - THE GREATER OF:
      - 50% of the W-2 wages with respect to the business, or
      - 25% of the W-2 wages with respect to the business plus 2.5% of the unadjusted basis of all qualified property.
- PLUS:
  - 20% of qualified REIT dividends
  - Qualified publicly-traded partnership income

- REMEMBER – NEVER MORE THAN 20% OF THE TAXPAYER'S TAXABLE INCOME!

Wage and Property Limits

W-2 Wages

- Wage expense reported on W-2s
- Excludes 1099 contractors and guaranteed payments
- 199A specifies that in order to be a W-2 wage, it must be reported on a payroll tax return.

Qualified Property

- Unadjusted Cost Basis – original purchase price
- Tangible property (no land) subject to depreciation
- Depreciable period cannot end before the close of the tax year
  - Depreciable period – LATER of regular depreciation period or 10 years

Remember…its your allocable share

Do you qualify for the deduction?

Taxable Income	Non-Specified Service Business (All other businesses)	Specified Services Business
Less than $315,000	YES	YES
$315,000 - $415,000	Wage/Capital Limitation Phases-In	199A Deduction Phases -Out
More than $415,000	Wage/Capital Limitation	NO

What can you do now?

Tax Planning

POLL (2 of 3)

- Which of the following would be considered a specified service trade or business (SSTB)?

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The Impact of the TCJA on Estate and Charitable Planning

Estate Tax Planning

The Basics

- Exemption Equivalent: $11.18 Million
  - Estate & Gift Tax and Generation Skipping Tax
  - Sunsets in 2025
  - IRC §2001(g)(2) - Clawback
  - Inflation Adjustment
- Annual Exclusion: $15,000
- Massachusetts Threshold: $1,000,000
  - Florida and NH have no estate tax

Estate Tax Planning

The Basics

- Portability – Spouse can inherit unused exemption of deceased spouse
  - Does not apply to Generation Skipping Tax Exemption
  - Need to file Estate Tax Return for deceased spouse
  - Consideration of Estate Tax on Appreciation versus shielding in Credit Shelter Trust

Estate Tax Planning

The Basics

- Estate planning is more than minimizing estate taxes
  - Planning for disposition of assets
  - Asset protection planning
  - Planning for disability
  - Business succession planning
  - Planning to pay state death taxes
  - Charitable giving
  - Protections for children – disability, divorce, spendthrift
  - Identifying guardians of minor children

Estate Tax Planning

Income Tax Planning

- Assets Includable in Estate Receive Step-Up in Basis to Fair Market Value at Date of Death
  - Forcing assets back into estates
  - Double Basis Step-up
- Make Incomplete Gifts to DING Trusts
  - No-Grantor trusts
- Upstream Estate Planning
  - Use Estate Tax Exemption of parents that may not have taxable estate
  - General Power of Appointment
  - Sale with Power of Appointment
  - Value of the assets and the value of the note should zero out, resulting in a tax basis step-up but no estate tax

Estate Tax Planning

Income Tax Planning

- Trusts can take advantage of the §199A Qualified Business Income deduction
    - $157,500 phase-out for trusts
    - Take advantage of the 20% deduction
    - Maximize the QBI

- Income tax changes for individuals generally apply to trusts
    - Misc. itemized deductions repealed

- $10,000 State Tax Deduction Limit for trusts
    - Each trust can have its own $10,000 limitation
    - Real property held by the trust for business purposes may not be subject to the limitation

Estate Tax Planning

Spousal Lifetime Access Trust (SLAT)

- Spouse creates non-reciprocal irrevocable trust for benefit of other spouse in order to make gifts and use credit.
- Risk to non-grantor spouse
  - Qualified trade/business income
    - Not a specified trade/business
      - Trade/business involving performance of services
  - Does not include investment income
  - Does not include reasonable compensation paid from S corporation or guaranteed payments paid to a partner
  - Phase-out limitation
- PLR 201744006-008 – include DING type provisions to make it non-grantor

Estate Tax Planning

Asset Protection

- Assets in trust for children (3rd party trust) protected
  - Divorce
  - Bankruptcy
  - Creditors
  - Themselves

- Control but do not own

- Self settled trusts

POLL (3 of 3)

- Do you have an estate plan?

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Questions?

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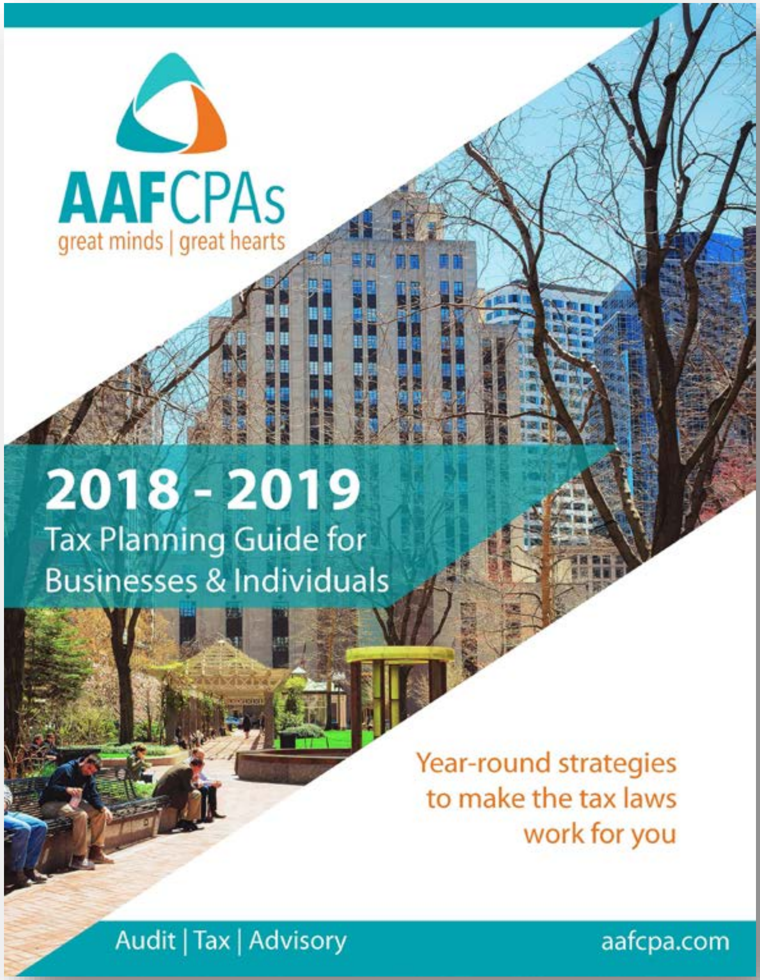
2018-2019 Tax Planning Guide for Businesses & Individuals

Visit: www.aafcpa.com/2018TaxGuide

CONTENTS:

- Year-To-Date Review
- Executive Compensation
- Investing
- Real Estate
- Business Ownership
- Charitable Giving
- Family & Education
- Retirement
- Estate Planning
- Tax Rates



Thank You