

# TaxTips

Keeping you informed winter 2018/2019

## Tax credit for children and qualifying dependents

How much are you eligible for?

Beginning in 2018, the child tax credit increases to \$2,000 per qualifying dependent child age 16 or younger at the end of the calendar year. This is a huge benefit because a credit reduces your tax bill dollar-for-dollar! Also, up to \$1,400 of the credit could create a refund if you have at least \$2,500 of earned income. Once you earn more than \$200,000 (\$400,000 if married filing jointly), the credit decreases.

A qualifying child must be a U.S. citizen, U.S. national or resident alien. The child must be your son, daughter, stepson, stepdaughter, brother, sister, stepbrother, stepsister, grandchild, niece, nephew, adopted child or foster child. Also, don't forget that you must provide at least half of the child's support during the year and the child generally must have lived with you

for at least half of the year. The child cannot file a joint return (or file it only to claim a refund) and you must provide a Social Security number for the child on your tax return.

New this year is a \$500 nonrefundable credit, also known as the family credit, for qualifying non-child dependents and qualifying children aged 17, 18, or under 24 if a full-time student. A non-child dependent must be a close relative or live with you. Their taxable income must be less than \$4,150 for the year, and you must provide over half of their support. The non-child dependent also must be a U.S. citizen, U.S. national or U.S. resident; however, the Social Security requirement does not apply, though you'll still need a taxpayer identification number.





## Disabled?

An ABLÉ account can help you save

Disabled individuals and their families can often find themselves in a difficult situation when it comes to their long-term financial security. A few years ago, the *Achieving a Better Life Experience (ABLE) Act* established tax-advantaged savings programs for these individuals.

Anyone who became disabled prior to his or her twenty-sixth birthday is eligible for an ABLÉ account. If you meet this age criteria and are also receiving Supplemental Security Income (SSI) or Social Security Disability Insurance (SSDI), you are automatically eligible to establish an ABLÉ account. If you are not a recipient of SSI and/or SSDI but still meet the age of onset disability requirement, you could still be eligible to open an ABLÉ account if you meet Social Security's definition and criteria regarding significant functional limitations, plus receive a letter of certification from a licensed physician. It's important to note that you need not be under age 26 to be eligible for an ABLÉ account; it is the age of onset of the disability that matters.

Additionally, the account owner does not need to be the person eligible to open the ABLÉ account. Instead, an authorized individual, such as a parent or guardian, can open it.

Anyone can contribute to a person's ABLÉ account as long as the annual contribution amount does not exceed the annual gift tax exemption amount (\$15,000 for 2018). Furthermore, after Dec. 22, 2017, an ABLÉ

account's designated beneficiary can contribute an additional amount up to the lesser of the federal poverty line for a one-person household (\$12,060 for the continental U.S.) or the individual's compensation for the year. The new law requires that a designated beneficiary (or person acting on the beneficiary's behalf) maintain adequate records for ensuring compliance with such limitations.

ABLE accounts provide many benefits including:

- Tax-free growth of the investment.
- Tax deductible contributions at the state level.
- Saver's credit eligibility.
- Acceptance of rollovers from qualified tuition programs.

Another benefit is that the assets generally do not count against resource limitation requirements for several public aid programs. In addition, some states protect the account from inheritance taxes as well as Medicaid repayment requirements.

The funds withdrawn from an ABLÉ account must be used for qualified expenses, which may include costs for education, transportation, job-related training, medical, assistive support, funeral costs and more.

The specifics of establishing an ABLÉ account vary from state to state.

## Income taxes

Check your withholding to avoid surprises

The U.S. tax system is a pay-as-you-go process. Taxes must be paid as income is earned or received during the year. With the new tax laws, the way tax is calculated for most taxpayers has changed. In addition, any change in your tax situation for the year (e.g., selling stock, changing marital status, working multiple jobs, etc.) can affect how much tax needs to be paid during the year.

If you receive salaries, wages, pensions, unemployment compensation and any taxable Social Security, you can adjust the amount of tax withheld. Some income is not subject to withholding, including income from self-employment or rental activities. Therefore, some of you may need to make estimated tax payments unless you expect to owe less than \$1,000 when you file or if you had no tax liability in the prior year (subject to certain conditions).

Making an adjustment to withholding or making an estimated tax payment now may help you avoid an unexpected year-end tax bill and a potential penalty.

## Out-of-pocket business expenses

Ask your employer to set up an accountable reimbursement plan instead

Beginning in 2018, employees are no longer able to deduct out-of-pocket business expenses, including professional dues and licenses, tools and equipment, uniforms, continuing education, and work-related travel, meals and lodging.

Instead of footing the bill for these business expenses, ask your employer to consider setting up an accountable reimbursement plan. If your employer sets up an accountable plan, you can submit proper documentation for required expenses and subsequently receive tax-free reimbursement. In addition, the employer gets a tax deduction for the payment.

If your employer does not want to set up an accountable plan, you could request an expense allowance to help cover your costs. The employer will need to include this allowance on your W-2; however, it would help reduce your out-of-pocket total.

## Schedule A deductions

New law instills limitation

While state and local tax deductions are still available on Schedule A, beginning in 2018 through 2025, the aggregate amount of all state and local sales, income and property taxes on this schedule may not exceed \$10,000 (\$5,000 for married taxpayers filing separately).

State, local and foreign property taxes and sales taxes that are deducted on Schedule C, Schedule E or Schedule F are not capped.

With the increased standard deduction for these years, this limit will not apply if you are no longer itemizing.

Other deductions remaining on Schedule A for 2018 include the following:

- Personal casualty losses if incurred in a federally declared disaster area.
- Investment interest to the extent of net taxable investment income, with any leftover interest being carried forward to the next year.
- Gambling losses to the extent of gambling winnings.
- Charitable contributions with most gifts deductible up to 50% of AGI (60% for cash contributions)

and gifts of stock deductible up to 30% of AGI, with any carryover generally deductible for the next five years.

- Medical expenses, such as prescription drug co-pays, transportation to and from doctors and other medical appointments, cost of dentures, hearing aids and more, to the extent they exceed 7.5% of AGI (10% after 2018).

## Post-2018 alimony agreements

Irrelevant for tax purposes

There is no change in the federal income tax treatment of alimony and separate maintenance payments that are required by divorce agreements executed before 2019. As such, alimony payers take a deduction while alimony recipients include the payment in income post-2018.

However, for any divorce or separation agreements executed in 2019 and later years, alimony will no longer be reported on the tax return. This is also the case for prior agreements later modified to state that the new rules apply.

Even if you already have a divorce attorney, let's chat to make sure we work together to get the best tax results for you.



## Combat-zone workers

### Certain income not excludable

Under new law this year, certain U.S. citizens or resident aliens, specifically contractors or employees of contractors supporting the U.S. Armed Forces in designated combat zones, may now qualify to use the foreign earned income exclusion.

Even though you may have an abode located in the U.S., if you are performing personal services when your tax home is in a foreign country and you meet certain other tests, you may be able to exclude up to \$103,900 of income for 2018.

The foreign earned income exclusion is not automatic. To claim this benefit, you need to file a special form. Also, it's critical to point out that if you choose the foreign earned income exclusion, you cannot take advantage of any other exclusion, deduction or credit related to the excluded income. This includes any expenses, losses or other items that would have been deductible had the exclusion not been claimed.

## Charitable contributions

### Donate via your IRA

With the larger standard deduction amounts beginning this year, many people could lose the tax benefit of making charitable contributions. To reduce tax liability, certain taxpayers could use a qualified charitable distribution (QCD).

A QCD allows anyone age 70½ or older to donate up to \$100,000 annually from their IRA account directly to one or more charitable organizations without the distribution counting as income. In addition, if a spouse qualifies, he or she could also make another QCD up to \$100,000 from his or her own IRA. It's imperative that the distribution goes directly to the charity and not to the taxpayer; otherwise, it will be taxable.

The charity must be a §501(c)(3) organization eligible to receive tax-deductible contributions. Private foundations, supporting organizations and donor-advised funds do not qualify. Also, when making a QCD, you must receive the same type of acknowledgment of the donation that you would need to claim a deduction for a charitable contribution. However, since a QCD is not taxable, it is not deductible as a charitable contribution.

Any money you transfer to charity in this manner will reduce the amount you must take in required distributions for the year. The best part is that this charitable giving strategy will reduce your AGI, which could, in turn, lower the amount of any Social Security income subject to income tax! The QCD could also decrease the amount of your Medicare premiums for the following year.

Since Roth IRAs do not require minimum distributions during your lifetime, and their distributions are generally tax-free, it is generally not advisable to make a QCD from a Roth IRA.

Currently, your IRA custodian is not required to specifically identify the QCD on your annual Form 1099-R. Make sure you inform me if you take advantage of this tax saving strategy to ensure it is properly reported on your tax return.

