Dear Clients and Friends,

As the end of the year approaches, it is a good time to remind you of planning moves that will help lower your tax bill for this year and possibly the next. Year-end planning for 2018 takes place against the backdrop of new laws that make major changes in the tax rules for individuals and businesses.

Numerous federal income tax law changes are effective beginning with the 2018 tax year, some of which have created additional complexity and uncertainty for taxpayers. Official guidance is lacking in many cases, and state conformity with federal laws varies and continues to evolve. Legislative developments, administrative changes, or future judicial interpretations may impact tax advice provided by us.

For **individuals**, there are new, lower income tax rates, a substantially increased standard deduction, severely limited itemized deductions and no personal exemptions, an increased child tax credit, and a watered-down alternative minimum tax (AMT), among many other changes.

For **businesses**, the corporate tax rate is cut to 21%, the corporate AMT is gone, there are new limits on business interest deductions, and significantly liberalized expensing and depreciation rules. There is also a new deduction for non-corporate taxpayers with a qualified business income deduction from pass-through entities.

Despite this atmosphere of change, the time-tested approach of deferring income and accelerating deductions to minimize taxes still works for many taxpayers, along with the tactic of "bunching" expenses into this year or the next to get around deduction restrictions.

We have compiled a list of actions based on current tax rules that may help you save tax dollars if you act before year-end. Not all actions will apply in your particular situation, but you (or a family member) will likely benefit from many of them.

Year-End Tax Planning Moves for Individuals

•**Withholding and Estimated Tax Payments:** With the changing tax brackets, changes in itemized deductions, and the qualified business income deduction on pass-through income, have you paid in enough taxes through withholding or estimated tax payments? Taxes are due to the IRS throughout the year. We can help you estimate taxes due by April 15.

•**Required Minimum Distributions (RMD):** Take RMDs from your IRA or 401(k) plan (or other employer-sponsored retirement plan). RMDs from IRAs must begin by April 1 of the year following the year you reach age 70-½. That start date also applies to company plans, but non-5% company owners who continue working may defer RMDs until April 1 following the year they retire. Failure to take a required withdrawal can result in a penalty of 50% of the amount of the RMD not withdrawn. Thus, if you turn age 70-½ in 2018, you can delay the first required distribution to 2019, but if you do, you will have to take a double distribution in 2019—the amount required for 2018 plus the amount required for 2019. Think twice before delaying 2018 distributions to 2019, as bunching income into 2019 might push you into a higher tax bracket or have a detrimental impact on various income tax deductions that are reduced at higher income levels. However, it could be beneficial to take both distributions in 2019 if you will be in a substantially lower bracket that year.

• **Schedule A Itemized Deductions Changes:**

- *Standard Deduction:* Beginning in 2018, many taxpayers who claimed itemized deductions year after year will no longer be able to do so. That's because the basic standard deduction has been increased (to $24,000 for joint filers, $12,000 for singles, $18,000 for heads of household, and $12,000 for marrieds filing separately), and many itemized deductions have been cut back or abolished.
- *State and Local Taxes:* No more than $10,000 of state and local taxes may be deducted.
- *Miscellaneous Itemized Deductions:* Miscellaneous deductions (e.g., investment fees) and unreimbursed employee expenses are no longer deductible.
- *Casualty and Theft Losses:* Personal casualty and theft losses are deductible only if they're attributable to a federally declared disaster and only to the extent the $100-per-casualty and 10%-of-AGI limits are met.
- *Medical Expenses:* You can still itemize medical expenses to the extent they exceed 7.5% of your adjusted gross income.
- *Interest Deductions:* The new law reduces the mortgage interest deduction to interest on $750,000 of acquisition indebtedness interest for debt incurred after December 15, 2017. The $1 million limitation remains for older debt. The new law also suspends the mortgage interest deduction for interest on home equity indebtedness for tax years beginning after December 31, 2017.
- *Limitation on Itemized Deductions:* The new law suspends the overall limitation on itemized deductions for tax years beginning after December 31, 2017.

• **Charitable Contribution Considerations:**

- Consider contributing appreciated publicly-traded stock you have held more than one year to a charity before December 31 and take a charitable deduction for the full market value of the stock on the date of transfer – without having to report any capital gain income.
- If you are age 70-½ or older by the end of 2018, have traditional IRAs, and if you can't itemize your deductions, consider making 2018 charitable donations via qualified charitable distributions from your IRAs. Such distributions are made directly to charities from your IRAs, and the amount of the contribution is neither included in your gross

income nor deductible on Schedule A but the amount of the qualified charitable distribution reduces the amount of your required minimum distribution, which can result in tax savings.

• **Bunching Strategy:** Some taxpayers may be able to work around the new law limiting Schedule A deductions by applying a “bunching strategy” to pull or push discretionary medical expenses and charitable contributions into the year where they will do some tax good. For example, if a taxpayer knows she will be able to itemize deductions this year but not next year, the taxpayer will benefit by making two years' worth of charitable contributions this year, instead of spreading out donations over 2018 and 2019.

• **Gifts:** Make gifts sheltered by the annual gift tax exclusion before the end of the year if doing so may save gift and estate taxes. The exclusion applies to gifts of up to $15,000 made in 2018 to each (unlimited number) individual. You can't carry over unused exclusions from one year to the next. Such transfers may save family income taxes where income-earning property is given to family members in lower income tax brackets who are not subject to the kiddie tax.

Year-End Tax-Planning Moves for Businesses and Business Owners

• **Qualified Business Income Deduction (QBID):** For tax years beginning after 2017, taxpayers other than corporations may be entitled to a deduction of up to 20% of their qualified business income. For 2018, if taxable income exceeds $315,000 for a married couple filing jointly, or $157,500 for all other taxpayers, the deduction may be limited based on whether the taxpayer is engaged in a service-type trade or business (such as law, accounting, health, or consulting), the amount of W-2 wages paid by the trade or business, and/or the unadjusted basis of qualified property (such as machinery and equipment) held by the trade or business. The limitations are phased in for joint filers with taxable income between $315,000 and $415,000 and for all other taxpayers with taxable income between $157,500 and $207,500.

Taxpayers may be able to achieve significant savings by deferring income or accelerating deductions so as to come under the dollar thresholds (or be subject to a smaller phase-out of the deduction) for 2018. Depending on their business model, taxpayers also may be able increase the new deduction by increasing W-2 wages before year-end. The rules are quite complex, so don't hesitate in contacting us with any of your questions.

• **Accelerated Depreciation:** Businesses should consider making expenditures that qualify for the liberalized business property expensing option. For tax years beginning in 2018, the expensing limit is $1,000,000, and the investment ceiling limit is $2,500,000. Expensing is generally available for most depreciable property (other than buildings), and off-the-shelf computer software. For property placed in service in tax years beginning after Dec. 31, 2017, expensing is also available for qualified improvement property (generally, any interior improvement to a building's interior, but not for enlargement of a building, elevators or escalators, or the internal structural framework), for roofs, and for HVAC, fire protection, alarm, and security systems. The generous dollar ceilings that apply this year mean that many small and medium sized businesses that make timely purchases will be able to currently deduct most if not all their outlays for machinery and equipment. What's more, the expensing deduction is not prorated for the time that the asset is in service during the year. The fact that the expensing deduction may be claimed in full regardless of how long the property is held during the year can be a potent tool for year-end tax planning. Thus, property acquired and placed in service in the last days of 2018, rather than at the beginning of 2019, can result in a full expensing deduction for 2018.

• **Bonus Depreciation:** Businesses can claim a 100% bonus first year depreciation deduction for machinery and equipment—bought used (with some exceptions) or new—if purchased and placed in service this year. The 100% write-off is permitted without any proration based on the length of time that an asset is in service during the tax year. As a result, the 100% bonus first-year write-off is available even if qualifying assets are in service for only a few days in 2018.

• **Net Operating Loss (NOL):** A corporation (other than a “large” corporation) that anticipates a small NOL for 2018 (and substantial net income in 2019) may find it worthwhile to accelerate just enough of its 2019 income (or to defer just enough of its 2018 deductions) to create a small amount of net income for 2018. This will permit the corporation to base its 2019 estimated tax installments on the relatively small amount of income shown on its 2018 return, rather than having to pay estimated taxes based on 100% of its much larger 2019 taxable income.

We can narrow down the specific actions that you can take should you wish us to do so. We are eager to assist you with your questions and year-end planning needs.

Thank you for your business. We are grateful you have placed your trust in us!

Hellam Varon & Co, Inc.