ClientLine®

October 2018

TAX HARVESTING

No one likes to lose money, but the good news is that certain investment losses may be tax-deductible, so this is a good time of year to get an idea about how your investments are performing.

KNOW THE DIFFERENCE

Not all investment losses qualify for a federal tax deduction. First, you realize a capital gain or loss only by selling the investment. A paper loss on an investment that you continue to hold is not considered a loss for tax purposes, just as a paper gain isn't a taxable event until you realize gains by selling the investment.

When you realize investment losses, offset them with investment gains. For example, let's say you sell some investment losers for a $5,000 loss in 2018. You know this by subtracting what you sold the investment for from what you paid for it, called the basis. Then you sell a few winning investments that give you $4,000 in taxable gains. Subtract your loss from your gain, and you get a total loss, in this case, of $1,000.

CAP GAINS LIMIT

Not all capital gains and losses are treated the same. Long-term capital gains are on investments you hold for at least a year, while short-term investment results are realized when you sell an investment you owned for a shorter time period.

You also need to be aware of the annual $3,000 capital loss deduction limit. Losses over this amount may be carried forward to the next year's tax return.

BE CAREFUL

Work with your accounting professional to make sure you can take advantage of tax-loss harvesting, as well as any other tax break the IRS offers. Also, some investments that are temporary losers may become long-term winners, so keep your long-term investing goals in mind before deciding whether to sell any investment.

Karen Petrucco
Account Manager

LTM Client Marketing, Inc.
125 Wolf Road, Suite 407
Albany, NY 12205

Tel: 518-870-1082
Toll Free: 800-243-5334 ext.505
Fax: 800-720-0780

kpetrucco@ltmclientmarketing.com
www.ltmclientmarketing.com

How Long is Enough?

When it comes to records, some are more important to keep than others. If you own a business, here is a look at some records you might want to hold on to for a while.

TAX RECORDS

Keep documents that provide a record of your gross receipts, including credit card and bank statements, cash register tapes and invoices, at least seven years after your business is sold. You will also want a record of money that leaves your business, as proven by 1099 forms, checks and credit card receipts for business expenses, receipts for sales and employment taxes and more.

ASSETS

If you eventually sell your business and want a record of how much you bought your business for (or put into it from scratch), keeping a record of it will be important. Also keep cancelled checks and other proof of purchases you may depreciate on your tax return and deductions taken for casualty losses.

A BALANCED APPROACH TO RETIREMENT

If you're like many business owners, you may wonder how to leverage your business to maximize your retirement savings efforts. A cash balance plan may be one option, especially for highly paid principals and key executives of small corporations, partnerships and LLCs.

WHAT IS IT?

A cash balance plan offers a specific retirement benefit in the form of a lump sum paid for by the employer. The exact benefit is due upon a participant's retirement. Employees — owners count as employees — have the option to convert their balances to lifetime annuities or take the lump sum. In contrast, traditional defined benefit plans must offer a guaranteed series of payments that last a lifetime.

Either way, a defined benefit plan puts the onus on employers to deliver the eventual retirement benefit, regardless of investment performance, while the performance of a defined contribution plan depends solely on employees, who may or may not receive contributions from their employers. Because investment performance is a factor in a defined contribution plan, the eventual benefit cannot be defined.

PROS AND CONS

Cash balance plans aren't for everyone, but they can be advantageous for those seeking a larger benefit. Tax-deductible contribution limits are higher than for 401(k) plans and they rise with age, so more experienced employees stand to benefit from this feature. Benefits are also guaranteed and protected by the Pension Benefit Guaranty Corporation, subject to limits.

These plans are not inexpensive, and they must be audited annually. Cash balance plans must also fully vest all eligible employees after three years. However, a cash balance plan can help owners build a bigger retirement balance while attracting qualified workers. Talk to an experienced retirement plan specialist to learn more.

Client PROFILE

Jerry is the owner of an architectural firm. He is 50 years old and wants to work past normal retirement age, but he wants to continue saving for an eventual retirement. Jerry wants to know if he is still required to take required minimum distributions at age 70½ if he is working.

Federal law requires owners of retirement accounts like 401(k)s and IRAs to begin taking required minimum distributions (RMDs) beginning around age 70½. Jerry can delay RMDs from a 401(k) plan if he doesn't own at least 5% of his company and it offers this option in its retirement plan while he continues to work.

If he owns more of the company and qualifies by income, Jerry might want to consider a Roth IRA, into which he makes after-tax contributions but tax-free withdrawals. Anyone with earned income (and who qualifies by income) is eligible to contribute to a Roth IRA, and it has no RMDs during its lifetime.

If he has a Roth 401(k) plan, Jerry might want to talk to his accounting professional to learn about rolling it over into a Roth IRA, since the latter doesn't have RMDs.

Client Profile is based on a hypothetical situation. The solutions discussed here may or may not be appropriate for you.

A TRUST FOR DISABLED INDIVIDUALS

A special needs trust, also known as a supplemental trust, is a legal document created by the family or guardians for the benefit of a disabled person who cannot manage their own finances. These trusts are designed to provide assets for the health and welfare of disabled individuals, often without jeopardizing government assistance such as Supplemental Security Income (SSI), Medicaid and other programs.

UNDERSTANDING THE TERMS

A grantor establishes a trust and can name a trustee who manages the trust's assets and makes distributions for the benefit of the beneficiary, or disabled person. Because the trust owns the assets — not the beneficiary — distributions made through the trust are not considered part of the disabled person's assets and will not put that person's government aid at risk.

There are a couple of different ways to set up this trust, including one that uses the beneficiary's assets and pays back Medicaid disbursements after death, so work with an attorney experienced with Medicaid planning and trusts.

SPECIAL NEEDS, SPECIAL SAVINGS

While parents have a variety of tax-advantaged ways to save for their children's educational needs, they haven't always enjoyed the same tax benefits when saving for the future of their special-needs children. The Achieving a Better Life Experience Act (ABLE) of 2014 provides such an opportunity.

ABLE ACCOUNTS

States may offer ABLE accounts, designed to pay for disability-related expenses, to people who become disabled before age 26. Account earnings are tax-deferred, but you make contributions to an ABLE account after tax. Qualified withdrawals — including support services, assistive technology, employment training, transportation, education and housing — are tax-free.

You and other loved ones can each contribute up to $15,000 gift-tax-free, and the recent tax law changes now allow disabled persons to also contribute to their ABLE accounts subject to certain limits. The first $100,000 of ABLE account assets are not considered part of the account beneficiary's assets, a positive feature for those depending on Medicaid eligibility.

TAX LAW CHANGES

A provision allowing ABLE account beneficiaries to qualify for the Saver's Credit based on account contributions of up to $2,000 is new in 2018. Also new are limited rollovers to an ABLE account from 529 plans of the disabled beneficiary and loved ones.

....Q&A

Q **Can I get a tax deduction for making my manufacturing plant accessible to our disabled employees?**

A Better yet, your business may get a tax credit and possibly a deduction for the cost of certain expenses you incur accommodating disabled persons. If your business had under $1 million in gross receipts in 2017, the Architectural Barrier Removal tax deduction lets you deduct up to $15,000 a year and the Disabled Access Credit gives you a tax credit of up to $5,000, with the credit reducing the deduction in the same year. Talk to your accounting professional to learn more.

Q **My daughter is paying private high school tuition for my two grandchildren. Is it true that I can take tax-free distributions from a 529 plan to help pay these costs?**

A New federal tax laws allow tax-free distributions of up to $10,000 per student per year to pay tuition for elementary and secondary private and parochial schools. However, a few states still tax these distributions, and the limit may not even cover half of a high-priced school's tuition. Take advantage of the new tax law, but also look into giving up to $15,000 annually tax-free to each grandchild (or $30,000 a year if you and your spouse make gifts).

PROOF

ClientLine® SHORT BITS

> **VACATION DAYS –** The Bureau of Labor Statistics reports that private industry workers received an average of 15 paid vacation days after five years of service in 2017. The number of vacation days rises slowly with time, with workers receiving an average of 17 days after 10 years and 20 days after 20 years.

> **INFLATION INFLATING –** If you think the dollar doesn't stretch as far as it used to, you may be right. Inflation is up 2.9% or 2.3%, depending on what economic indicator you want to use. The rate of the annual increase in the cost of living in June 2018 hit 2.9%, according to the consumer price index (CPI). Alternatively, you can gauge inflation by the increase in the core CPI (which doesn't count food or energy costs) of 2.3%.

> **BUSINESS CONFIDENCE SOARS –** If you're the typical small business owner, you're feeling pretty good about your prospects these days. The National Federation of Independent Business' Small Business Optimism Index posted its sixth highest reading in survey history in June 2018 at 107.2. This was strong compared to the 45-year-average of 98, but 0.6% lower than May's reading.

> **TAXING PROBLEM –** The Supreme Court ruled this summer that South Dakota could levy a 4.5% internet sales tax on companies with more than $100,000 in sales or 200 individual transactions in the state, even when the companies don't have a physical presence in the state. This could pose problems for companies with significant internet sales if they have to comply with similar regulations throughout the country.