ClientLine®

December 2018

YEAR-END TAX PLANNING IDEAS

At the end of every year, Americans rush to make money moves that can reduce their tax liabilities. As 2018 comes to a close, consider these moves to reduce your tax bill and put more money in your pocket.

DON'T FORGET

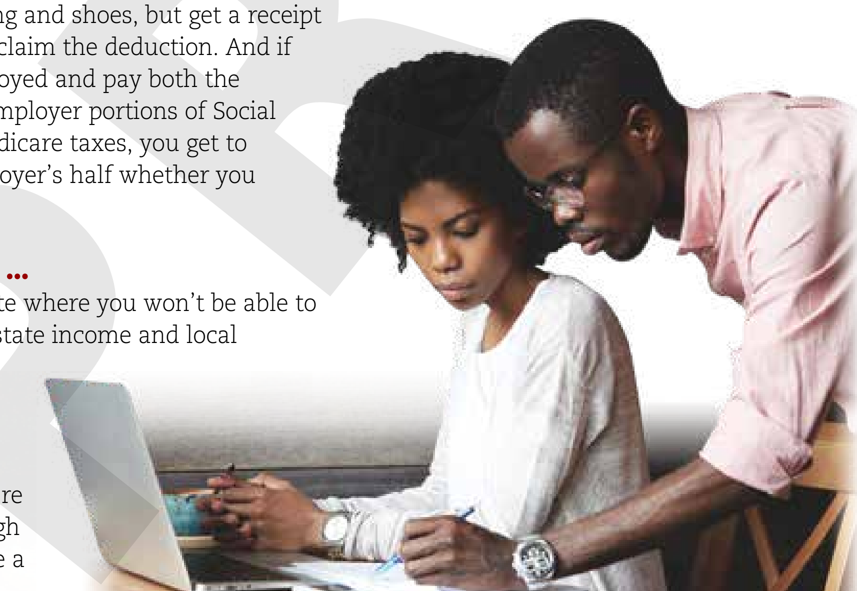
You often hear about how investors can use the realized losses from their failing investments to reduce capital gains. What if you have no capital gains? In that case, you may reduce your taxable ordinary income by up to $3,000 of capital losses. To come up with your loss, subtract your purchase price and any fees from your sales price.

If you itemize, don't forget to deduct mileage related to your qualified charity work at 14 cents per mile. You can also deduct the fair market value of goods you give to charity, including clothing and shoes, but get a receipt for the items to claim the deduction. And if you're self-employed and pay both the employee and employer portions of Social Security and Medicare taxes, you get to deduct the employer's half whether you itemize or not.

WATCH OUT IF ...

You live in a state where you won't be able to deduct all your state income and local property tax, which now have a combined limit. Also, be careful that you're depositing enough taxes if you have a large number of dependents; most dependents aren't deductible for tax year 2018 and beyond.

In these cases and others where you have more income or fewer tax deductions than expected, increase your estimated quarterly tax payment for the fourth quarter. Ask your employer for a W-4 form to fill out so you can deduct extra tax money from your income. Generally, you have to pay at least 90% of your tax liability, either through employer deductions or estimated tax deposits, to avoid a penalty on the amount of any underpayment.



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Taking Care of Business

The end of the year is a good time to tidy up loose tax ends and fine-tune your tax planning strategies to maximize business net income. Here are three ways to make your company's financial picture look brighter today and tomorrow.

Contribute to a Tax-Qualified Retirement Plan.

In return, you may find business tax deductions for costs related to running the plan and employer contributions to the plan. Additionally, potential growth in your individual account is tax-deferred until withdrawal.

Use the Right Bookkeeping Program.

Let your accountant know how you keep the books and develop a plan to record expenses, income and receipts in the most thorough way possible.

Take Advantage of New Tax Rules.

Again, your accountant can advise about the changes to business tax laws in 2018, including a new option to expense certain items immediately or over time.

ALL IN THE FAMILY
(PART 2)

In the last issue of ClientLine, we talked about the foundation family businesses need to turn family members into eventual company owners. This issue, we'll examine three ways business owners and their trusted advisors can work together to achieve this financially, short of buying the company with ready cash (with its various tax implications).

OWNER FINANCING

Also known as the installment plan, you might create an agreement with the help of an attorney to receive a down payment on the sale of your business, with the rest paid in installments. Pros include potentially lower interest on payments for the buyer and a stream of income the seller can use in retirement. Cons include less cash flow for the new owner to operate the company and the chance installment payments to the old owner will stop before full payment.

SINKING FUND

If you have a well-structured buy-sell plan and intend to pass the business on in a specified number of years, you might consider establishing a sinking fund, which becomes a company asset until used to purchase the business. You can schedule regular payments to an interest-bearing account or investment-type fund, with funds growing over time to theoretically fund a future purchase.

LIFE INSURANCE

You may also want to examine the potential of funding a cash-value life insurance policy to use in the future purchase of the business. Like a sinking fund, the life insurance policy becomes a company asset. Unlike a sinking fund, which doesn't help if the existing owner dies before the fund accumulates sufficient cash, life insurance covers a potential sale, whether unexpected or planned.

GET HELP

Work with your tax professional to understand the tax implications for you and family successors before deciding which funding method to choose.

Client PROFILE ••••

Mark runs a small architectural firm in a North Carolina region that Hurricane Florence flooded badly, and he hasn't been able to file his company or individual federal taxes, including his 2018 third-quarter estimated tax returns. Will he still owe a penalty when he files and pays?

The IRS announced that Hurricane Florence victims in parts of North Carolina and elsewhere in federally declared disaster areas have until Jan. 31, 2019 to file and pay some individual and business taxes that were due after Sept. 7.

This includes third-quarter estimated income tax payments that were due on Sept. 17, 2018 and quarterly payroll and excise tax returns normally due on Oct. 31, 2018. Taxpayers who had a valid extension to file their 2017 returns by Oct. 15, 2018 also have more time to file.

Additionally, Mark may be able to deduct Florence-related casualty losses on his 2018 tax return. He should talk to his tax professional as soon as feasible to learn more about meeting tax obligations during this trying time.

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

AND THE MAGIC NUMBER IS?

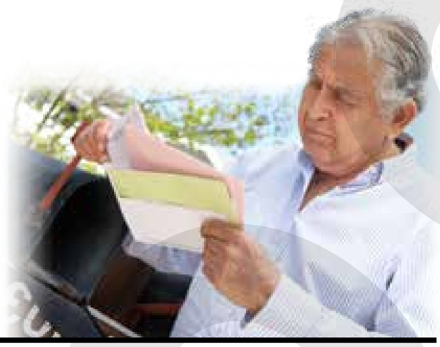
Most retirees face the same choices when nearing retirement: Do they take early Social Security payments, which will be smaller but received over more years? Or will they wait and begin payments between normal retirement age and 70, which would mean larger payments over a shorter time? While you should see your financial pro for guidance, the following provides an overview:

EARLY PAYMENTS

Let's say you were born in 1960, have a normal retirement age of 67 and want to collect benefits at age 62. You'll receive 30% less each month than you would at age 67. Expect a $2,000 monthly benefit at age 67, for instance, to shrink to $1,400 if you begin payments at 62, while each year you wait after age 67 will raise your benefit until age 70.

LATE PAYMENTS

If you wait until you're 70, your monthly benefit grows to $2,480, or 124% of the $2,000 benefit you would have received starting at age 67. The choice is yours. Talk to a financial pro to learn which option is right for you.



SLICING THE INHERITANCE PIE

How do you fairly treat family members who aren't involved with the business when other family successors inherit your company? If estate equalization is the goal, life insurance can help you get there cost-efficiently.

ASSET RICH, CASH POOR

Let's say you own a $2 million business, which you intend to pass to your daughter. You have a son who isn't involved in the business at all and doesn't want to be a future part of it. You could have your heir who won't be in the business inherit an equal amount of other assets and cash. What, however, do you do if your portfolio is asset-rich but cash-poor like many family concerns?

ESTATE EQUALIZATION

With sufficient time and careful investing, you could sock cash into an account you will use to equalize your estate. Or you could buy a life insurance policy with a $2 million death benefit going to your son as beneficiary, while your daughter becomes beneficiary of your company.

Talk to a financial professional to learn how you might structure an estate equalization approach.

Q&A

Q What's your top tip for end-of-year business tax planning?

A Wow, that's an expansive question in a year with so many federal tax changes. You can cover all your bases by making an appointment to see your tax pro and going in as prepared as possible, bringing with you the documents needed to accurately complete your tax return. Include receipts for equipment you expense, taxes paid and business auto costs, and let them know whether you used the standard or actual mileage expense formula. Don't forget to include business travel receipts with the dates and business purposes of the travel.

Q My wife died earlier this year and I'm not sure if I'm responsible for paying taxes on her income for 2018. What should I do?

A We're sorry for your loss. Work with your tax professional and your wife's personal representative, if she had one, to identify and file a tax return that includes any earned or unearned income of your wife during the year. And yes, you or the estate is responsible for paying her taxes. You can file a joint tax return during the year of her death and for two years afterward if you have a dependent child. Don't forget to notify the Social Security Administration of her death, or have the funeral director do it for you.

ClientLine® SHORT BITS

> MILLENNIALS REMAIN WARY. Employees in their 20s have more target-date funds (TDFs) and other balanced types of mutual funds than older employees do. For many younger investors, the last recession was their introduction to investing. The Investment Company Institute (ICI) and the Employee Benefit Research Institute (EBRI) found that at the end of 2016, 64% of retirement plan participants in their 20s owned a TDF, while 45% of participants in their 60s had one. Younger investors have the most to gain by investing for growth and relying on time to smooth out market volatility.

> PAY OR SAVE? PlanSponsor's NewsDash asked readers whether it is better to pay off debt or save for retirement first. Three quarters chose paying off debt and saving for retirement at the same time. Even if you need to pay off high-interest debt, consider at least matching your employer match to your company-sponsored retirement plan.

> IN A FIX. Americans are increasingly enamored of fixed indexed annuities as a way to provide some financial certainty in retirement. According to the LIMRA Secure Retirement Institute, this annuity type accounted for $17.6 billion in sales during the second quarter of 2018 – a record – and $32.1 billion for the first half of the year. Sales for all of 2018 are also projected to break a record.

> LOOKING GOOD. The good news continued for the business sector through the second quarter of 2018. The Department of Labor's Bureau of Labor Statistics reported a revised 2.9% non-farm productivity rate for the second quarter of 2018, while unit labor costs decreased 1.0% in seasonally adjusted annual rates.