ClientLine®

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LIGHTEN YOUR TAX LOAD AND SAVE MORE

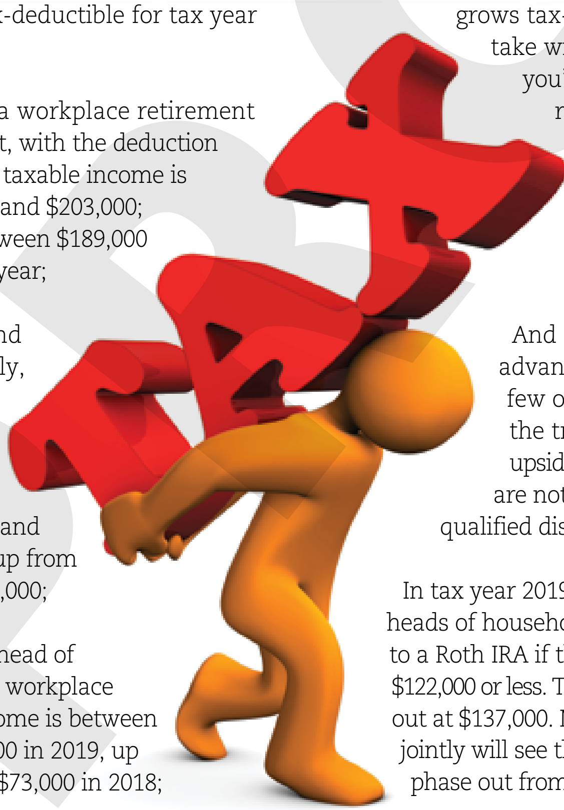
Need to save more for retirement? Both traditional and Roth IRAs can help you get there, and both offer tax advantages. Better yet, you have until your tax filing deadline to contribute to a traditional IRA and have it count as a potential deductible contribution for tax year 2018.

BY THE NUMBERS

You may make contributions of up to $5,500 annually, plus another $1,000 if you're at least age 50, to a traditional IRA for 2018. The limit increased to $6,000 in 2019.

Contributions are tax-deductible for tax year 2019 provided:

- Your spouse has a workplace retirement plan and you don't, with the deduction phasing out when taxable income is between $193,000 and $203,000; the range was between $189,000 and $199,000 last year;
- You're married and file your tax jointly, and you have a workplace plan, the deduction disappears between $103,000 and $123,000 in 2019, up from $101,000 and $121,000;
- You're single or a head of household, have a workplace plan and your income is between $64,000 and $74,000 in 2019, up from $63,000 and $73,000 in 2018;
- You and a spouse don't have a workplace plan, regardless of income.



TAX-ADVANTAGED

Even if you don't qualify for deductible contributions, your account balance potentially grows tax-deferred until you take withdrawals. Whether you're looking for your first retirement account or looking to put away more for the future, a traditional IRA may get you from here to there.

And speaking about tax advantages, a Roth IRA has a few of its own. It is basically the traditional IRA turned upside down, as contributions are not tax-deductible but qualified distributions are tax-free.

In tax year 2019, single taxpayers and heads of household can contribute fully to a Roth IRA if their taxable income is $122,000 or less. The deduction fully phases out at $137,000. Married couples filing jointly will see their ability to contribute phase out from $193,000 to $203,000.

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

Business Taxes

Business owners should keep an eye out for some tax features that may not last long.

Bon Voyage

Tax year 2019 is the last year to get a paid leave credit of between 12.5% and 25% of taxes for offering paid family or medical leave. There are a number of qualifiers and employers in states where mandated paid leave isn't eligible, so talk to your advisor to learn more.

Bonjour

The Cadillac tax was delayed, for the second time, from 2020 to 2022 — unless Congress delays it further or repeals it altogether. You'll pay what amounts to a penalty if you offer employees health insurance plans with premiums that exceed certain limits. Talk to your tax professional if you want to plan ahead.

In 2019, look for an increase in Section 179 expensing on qualified property to $1,020,000, phasing out at $2,550,000. ESOP limits also increase in 2019.

KNOW YOUR BENEFIT LIMITS

If your business offers its employees a retirement plan and other benefits, you should be aware of increases to contribution and income limits for tax year 2019 due to an inflation adjustment. Here's a look at some of them:

RETIREMENT PLANS

Defined contribution plans – 401(k), 403(b) and 457 plans – see their contribution limits rise to $19,000, up $500 from 2018, while the catch-up contribution limit remains at an additional $6,000 for participants at least age 50. Total contributions by an employee and employer rise from $55,000 to $56,000. SEP-IRAs, profit sharing and money purchase plans have the same limit increase to $56,000.

The compensation limit to determine contributions increases $5,000 to $280,000, while the limit to determine discrimination testing also rises $5,000 to $180,000 of key employee compensation.

The elective contribution limit for a Simple IRA rises $500 to $13,000, with employer non-elective contributions capped at 2% of compensation up to $280,000, up from $275,000. The $3,000 catch-up contribution is unchanged. And, finally, the contribution limit for defined benefit pension plans increases to $225,000 from $220,000.

NUMBERS TO KNOW

In 2019, employees can contribute up to $2,700 into their health flexible spending accounts. The pre-tax transportation benefit is capped at $265 per month. The limit on adoption assistance is $14,080. The salary deduction phases out between $211,160 and $251,160 of taxable income.

If you have employees who earn their income overseas, the foreign earned income exclusion amount is $105,900. Don't forget to adjust for increased Social Security income limits, if you haven't already. That's risen to $132,900, up from $128,400. And, finally, don't forget to file all of your forms, including tax returns, on time. Failure to do so can be costly. Talk to your tax professional for more information.

Client PROFILE ••••

Randall owns an S corporation and learned that he may be eligible to take a pass-through tax deduction, a new tax feature included in the most recent federal tax legislation. What is it and how might it apply to him?

Owners of some pass-through businesses, such as S corporations and sole proprietorships, or of certain real estate investment trusts (REITs) and publicly traded partnerships, may take a deduction equal to 20% of their qualified business income (QBI) in tax year 2018.

The deduction phases out for single tax filers at $157,500 of taxable income and for married taxpayers filing jointly at $315,000. In 2019, the phase-out for single taxpayers and heads of households with taxable income is $160,700, while couples filing jointly see the deduction phase out at $321,400.

Guidance for determining this new tax break continues to evolve a year after its passage, making it important that Randall consult a tax professional. Because the legal structure of any business should involve considerations beyond taxes, he may also want to consult his attorney to review his situation.

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

PIECES TO THE RETIREMENT PUZZLE

Individuals may have singular needs, but past history and a few surveys show many retirees have a few common ones, too. Here's a look at two of them.

HEALTHCARE

Challenge: Most estimates put the cost of healthcare in retirement in the six-figure range. This isn't as surprising as you might first think, considering soaring healthcare costs — even with insurance — and the likelihood of illness and injury as we age.

Solution: Prepare for this expense by having the right insurance, including Medicare Parts A, B and D once you reach age 65, unless you are covered by an employer-sponsored health plan. Part A covers hospital insurance, Part B covers outpatient health expenses and Part D is prescription drug coverage. You can combine all of these through Medicare Advantage plans or buy supplemental Medicare from an insurer to cover deductibles and other potential expenses.

TAXES

Challenge: Taxes can deplete your disposable income unless you know what to expect.

Solution: There are varied ways to limit the impact of taxes. Consider tax-free withdrawals from a Roth IRA. Invest to keep up with inflation and changes in your tax picture. Also make sure you don't run afoul of minimum distribution rules, which apply to most retirement vehicles but not to the Roth. Move or downsize if property taxes are too high.

WHEN DISASTER STRIKES YOUR BUSINESS

If a catastrophic event damages or disrupts your business, lost or destroyed tax records can add to your stress. The IRS suggests some steps you can take to deal with them if a disaster strikes.

1. Recreate your lost inventory by asking for invoices from suppliers going back at least one year.
2. Request copies of last year's federal, state and local income tax returns. Also ask for copies of sales tax reports, payroll tax returns and any business licenses.
3. Check for pictures and videos from cell phones, camcorders and cameras of the building, equipment and inventory.
4. As a last resort, sketch where inside equipment, inventory and outside assets like signage were located.

You may want to work with an appraiser to get a fair market value of your business before and after the disaster. For more information and help reconstructing your tax records, talk to your tax professional.

....Q&A

Q I want to sell my annuity and buy another one with the proceeds on my own, but a friend told me this would be a bad tax move. Is that true?

A When you want to exchange your annuity or life insurance policy with cash value, you can make what's known as a 1035 exchange: a direct swap to a new annuity without triggering a taxable event. Take possession of the funds and you'll be taxed. Another caveat: Check with the provider of your current annuity for any surrender charges should you make the swap.

Q I recently started a new business, which I didn't incorporate. Even if I don't expect to make much money during the first six to 12 months, do I still have to file estimated quarterly tax returns?

A Your tax professional can talk to you about your specific situation, but generally anyone who earns more than $400 in self-employed income will have to file a return and potentially pay taxes. For example, you will have to pay income and self-employment taxes, the latter including Social Security and Medicare taxes. IRS form 1040-ES gives you an overview of the subject, a worksheet to figure your liability and blank vouchers to file quarterly. Use Schedule SE (Form 1040) to file self-employment taxes annually.

PROOF

ClientLine® SHORT BITS

> RETIREMENT ASSETS GROW. The Investment Company Institute (ICI) estimated total U.S. retirement assets at $28.3 trillion as of the end of June 2018, accounting for almost one-third of household financial assets. Of that amount, about $9.26 trillion was in IRAs, making them the largest contributor. IRA assets grew $4.2 trillion since 2010. Where else are people investing for their retirement? Defined contribution plans like 401(k)s held more than $7.8 trillion in assets.

> CONSISTENCY MATTERS. When employees consistently contributed to their retirement plans — meaning actively in the same 401(k) plans from the beginning of 2011 to the end of 2016 — their balances more than doubled. The Employee Benefit Research Institute (EBRI) and Investment Company Institute (ICI) found that the average 401(k) plan account balance of these participants grew at 14.2% compounded annually to $167,330, more than double the average account balance of $75,358 among all participants during the same time.

> IMPORTS COST MORE. Trade uncertainty is causing a slight uptick in imports. Prices for U.S. imports rose 3.5% from October 2017 to October 2018, according to the Bureau of Labor Statistics. Prices rose 2.4% the year before. Fuel imports recorded the biggest increase at 30.2% while industrial supplies and materials import prices rose 14.2%.

> BUSINESS CONFIDENCE HIGH. The NFIB Research Foundation's October 2018 Small Business Optimism Index maintained its recent strong performance, recording a 107.4, just off its record high. The report found that the percentage of small business members with one or more unfilled job openings is at a 45-year high.