ClientLine®

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LAST-MINUTE TAX BREAKS

If you haven't filed your 2018 tax return yet, double-check it to make sure you've taken every tax break you can. New tax rules are in effect, so you may find deductions you overlooked.

CONTRIBUTE TO AN IRA

You can open and contribute up to $5,500 (plus $1,000 if at least age 50) for tax year 2018 up to your tax filing deadline, potentially making this the biggest last-minute tax break you can find. Anyone with earned income can open an IRA, but you'll need to meet income qualifications to gain the deduction. Regardless of income, your potential investment gains are tax-deferred.

Income limits are especially generous for joint filers when one isn't covered by a retirement plan at work.

DEPENDENTS

If you provide support to a person who is not your child, you could claim a $500 credit per qualifying dependent. If you support children age 17 and younger and your modified adjusted gross income is less than $400,000 (if married filing jointly) or $200,000 (for other tax filers), you qualify for up to a $2,000 tax credit. You deduct tax credits from the taxes you owe, while deductions reduce your taxable income.

INVESTMENT LOSSES

Last year's lackluster stock market could offer a consolation prize. If you itemize and your net investment income was negative, you can deduct up to $3,000 of net capital losses if married filing jointly or $1,500 if married filing separately when you meet generous new income limits.

AND THERE'S MORE

You can deduct medical expenses exceeding 7.5% of your adjusted gross income for 2018. This becomes less generous in 2019, when the percentage rises to 10%. Student loan interest, tuition and fees could also be deductible if you meet requirements. For these tax breaks and more, be sure to consult with your tax professional.

Avoid This!

If you don't want to experience an IRS audit of your tax returns, you can reduce your chances by doing the following:

Report Your Income Accurately – If you earn income from which taxes aren't withheld and don't report it, the IRS can match your numbers to 1099 forms business owners must submit.

Don't Stretch the Truth – Keep receipts for every dime of your charitable and other deductions.

Don't Deduct a Home Office – If you work from home and use your home office for anything other than work, you can't deduct it.

Be Honest – There's making an honest mistake, and then there is purposely being dishonest. Understandably, the latter is a more serious offense.

Be Thorough – If you mail in the returns from your tax preparer, don't forget to sign and date all necessary pages. If you have any questions, don't hesitate to ask your tax professional.

TOO MUCH OF A GOOD THING

Like all good things, investing requires moderation. For example, owning too many shares of your company's publicly traded stock in your 401(k) plan can hurt your retirement income prospects. Enron employees learned this painful truth in the early 2000s when the company's stock, in which many of them were heavily invested, became worthless.

CAUTION AHEAD

Since then, companies have increasingly avoided offering their own stock to 401(k) plan participants. While employers can't aggressively tout their own stocks, they can include them as an investment option or use them to match employee contributions. This can add up over time.

Owning too much stock in any single company is a lesson in how not to diversify. So it makes sense to monitor your 401(k) portfolio to make sure your holdings in company stock are appropriate for your time horizon, risk appetite and financial goals. Regularly rebalancing your portfolio to ensure diversification will help limit your risk.

DIVERSIFICATION MATTERS

Dividing your assets appropriately among the three major asset classes — stocks, bonds and cash investments — is the foundation for any investment strategy. Typically, younger 401(k) participants have the time to potentially outlast market volatility, so they can invest more aggressively. The closer you get to retirement, the more conservative your investment strategy should be.

Even within asset classes, you will diversify further with a mix of investments — or mutual funds that do the same. You can, for example, own domestic and international securities, fixed income investments that mature in anywhere from months to 30 years, and companies by capitalization (small-cap, mid-cap, large-cap). With so many choices, don't let company stock dominate your holdings.

Client PROFILE

Rafael wants to offer employees his company's public stock as one of the investments in his firm's employer-sponsored 401(k) plan. He heard there are limits to how much company stock employees can buy, but I told him there weren't. Who's right?

You are right. There are no limits to how much participants can invest in their company stock through a 401(k) plan, but his firm still must prove that it is a prudent selection. For that, he may want to bring in a fiduciary that can provide an educated opinion on the stock's appropriateness.

One alternative Rafael might consider to potentially avoid liability is to carve out the company stock from the 401(k) plan and offer it through an employee stock purchase plan (ESPP), a free-standing program separate from the 401(k). Employers can offer their company stock separately in an ESPP at a discount (subject to limits), then employees who sell the stock are responsible for paying taxes on the discount and any gain. The ESPP doesn't have the same tax benefits as a 401(k) plan.

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

REDUCING SEASONAL BUSINESS RISKS

Many businesses, from farms and ski resorts to surf shops and landscapers, depend on seasonal employees to keep them successful. Seasonal businesses come with added risks because they don't have the entire year to make up for a bad month or two.

MAKE A PLAN

If you own a seasonal business, you can limit some risks by taking precautions. A few tips that can keep you humming through the slow times:

BRANCH OUT – If, for example, your business is dependent on good weather, consider adding another facet to your business that isn't weather-dependent.

FOSTER RELATIONSHIPS – It's not easy having to hire an entire workforce each year. And many seasonal businesses hire teens and young adults, who may not be as dependable as you want. Why not try semi-retired people who look to work only when your business operates?

TARGET-MARKET – Learn where your customers come from and whether they get their information via your website or social media, and then target your marketing efforts at them through these platforms.

KNOW YOUR NUMBERS – When your business revenue isn't spread out, you need to pay extra attention to your income and expenses. That's where a tax professional can help. You'll also want to make sure your business is adequately insured.

YOUR BUSINESS MAY OWE SALES TAX

A handful of court decisions have sided with states that want to levy sales taxes on online purchases from companies located outside their states. Retailers who operate in more than one state may want to reexamine their tax practices in order to comply with each state's tax laws.

THE BACKGROUND

As online purchases have grown to comprise a greater percentage of retail sales, many retailers doing business this way have not charged customers tax if the company did not have a physical presence in the customers' states. Some states, however, have argued against this practice and in 2018 the Supreme Court agreed — specifically, that South Dakota could tax out-of-state online retailers (within certain limits) that don't have a physical presence in the state. Other states are now following suit.

NEXT STEPS

As this issue evolves, it is important that business owners affected by this ruling seek both tax and legal counsel, including information about varying thresholds at which states and localities will tax out-of-state retailers.

Q&A

Q **My fiancée and I will marry soon and wonder how we can best avoid arguments over money. Any tips about how we can keep the peace?**

A Start by having a conversation with each other and then with a financial professional. Establish your goals, wants and needs. Then create a strategy to meet these financial goals. Determine who will handle which financial chores. If one handles the checking and banking, make sure you both keep abreast of what's happening. If you have opposite money styles, learn to compromise and be honest about areas where you can't. Budget for short-term goals and build an emergency fund for unforeseen financial setbacks.

Q **I own an ice cream shop that stays open only from May through October. Do I need the same types of insurance coverage a year-round business needs?**

A If you own just about any type of business and have employees, state laws will likely require you to carry worker's compensation insurance and to pay into your state's unemployment fund. In fact, your insurance needs may be no different than a year-round business, just for a shorter timeframe. Look for an insurance agent who can talk to you about business insurance coverage for liability, property, commercial auto, cyber liability and more.

ClientLine® SHORT BITS

> LENIENCY GRANTED. The IRS announced it will generally waive an underpayment penalty for taxpayers who come up short on their withholding or estimated tax payments, but paid at least 85% of their total tax liability for 2018. Typically, taxpayers have to cover at least 90% of their tax owed to avoid a penalty. The IRS is granting this break due to the uncertainty that came with the 2018 tax law changes.

> DEDUCTION INCREASED. Speaking of tax breaks, the IRS increased the deduction taxpayers can take when using their vehicle for business to 58 cents per mile. That's up 3.5 cents from 2018. The standard mileage rate remains 14 cents per mile for use of an automobile in "rendering gratuitous services to a charitable organization" and is 20 cents per mile (up 2 cents) for vehicles used to obtain certain medical care. The business depreciation deduction for vehicles bumps up a penny, to 26 cents per mile.

> SIZE MATTERS. The bigger your company, the more likely it is to offer employees a retirement plan. The life insurance marketing organization LIMRA found that 42% of small businesses, those with between 2 and 99 employees, offer retirement benefits. LIMRA and other researchers have shown that the availability of retirement benefits encourages employees to save.

> INFLATION TAMED. The Consumer Price Index (CPI), which accounts for all urban consumers of all items, rose a modest 1.9% in 2018. Airline fares declined 2.6%, while shelter at 3.2% led the annual increases.