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CLIENTUPDATE

FALL 2018

Why bunching is now more useful than ever

With the near doubling of the standard deduction amount to $12,000 for single filers and $24,000 for joint filers this year, a new itemizing strategy is emerging. The idea is being called bunching by some and it is a potential strategy every taxpayer should understand.

How bunching helps to minimize tax

With tax bunching, you move multiple years (two or three) of deductible expenses into the one year you intend to itemize. In effect, you minimize your itemized deductions in the year(s) you use the standard deduction.

Assess your bunching option

Using the bunching idea requires planning. Here are some ideas:

1. **Know how close you are to the deduction limit.** Because of the many new limits on qualified itemized deductions, you will first need to estimate how close you are to the new thresholds. Do this by looking at your 2017 tax return and seeing how close you will be. Remember to limit your state and local tax deduction to $10,000 and eliminate any miscellaneous itemized deductions.
2. **Look at medical and dental expenses.** This is a potential bunching expense group if you project these expenses will surpass 7.5 percent of your income. Schedule non-emergency expenses, such as medical exams and dental cleanings, in a year they will clear the deduction threshold. Plan other electives such as crowns and braces in one year versus many. You may even wish to move up health insurance premium payments.
3. **Consider charitable donations as bunching options.** This is the largest potential bunching area. Make all your gifts in a year you plan to surpass the standard deduction threshold. But keep an eye on the 60 percent-of-AGI annual limit.

   Alternatively, consider postponing contributions to January of the following year if you won't itemize.
4. **Use mortgage interest as another bunching tool.** The deduction for interest paid on new acquisition debt of up to $750,000 (or $1,000,000 if the loan was made prior to Dec. 15, 2017) is still available. Consider pre-paying the next month's mortgage payment at the end of the year to increase the deductible interest in the year you wish to itemize.

Remember, if you expect to itemize or face a close call, bunching may be a better approach. ♦

Bunching EXAMPLE

Here's a simple example how bunching deductions into one year can help reduce your income.

Assume Jane is single, has $1,500 in donations and a total of $11,000 in itemized deductions in each of three years. Since Jane is below the $12,000 standard deduction, she can't itemize her deductions in any year. Then it dawns on Jane to push three years of charitable giving into Year 2. See what happens:

	Year 1	Year 2	Year 3
Option 1 (No bunching)			
Charitable donations	$1,500	$1,500	$1,500
Total itemized deductions	11,000	11,000	11,000
Jane uses standard deduction*	**$12,000**	**$12,000**	**$12,000**
Total reduction in income:	**$36,000**		
Option 2 (Bunching)			
Charitable donations	$0	$4,500	$0
Total itemized deductions	9,500	14,000	9,500
Jane now itemizes deductions in Year 2*	**$12,000**	**$14,000**	**$12,000**
Total reduction in income:	**$38,000**		
Extra reduction in income from Option 2:	**($2,000)**		

Result: Jane reduces her taxable income by $2,000 in Year 2 by using the bunching technique.

*$11,000 in itemized deductions is lower than her standard deduction.

IRSUPDATE

Hurricane-season disaster scams are here

Beware of charity scams popping up during this year's hurricane season, now through Nov. 30. Criminals often take advantage of people who want to help natural disaster victims. The most common ways scammers will try to collect money and personal information is by pretending to be a member of a charity or by creating a fake charity website.

Some scammers even pretend to work for the IRS to get natural disaster victims to work with them to file casualty loss claims. They use that relationship to steal the victims' tax refunds.

If you'd like to make a donation to a charity that supports hurricane or other natural disaster victims, use the IRS Tax Exempt Organization search tool to find a legitimate charity.

Beat the rush and renew your ITIN

Don't wait to renew your Individual Taxpayer Identification Number (ITIN) if it's set to expire at the end of 2018. The IRS wants taxpayers to submit their renewal applications as soon as they can to beat the last-minute rush and avoid refund delays next year.

Taxpayers who will need to file a tax return in 2019 and have ITINs that are expiring will need to submit a renewal application. ITINs with the middle digits 73, 74, 75, 76, 77, 81 or 82 need to be renewed even if you haven't used it in the last three years.

Third-quarter interest rates stay the same

The third-quarter interest rates on overpayments are 5 percent for individuals and 4 percent for corporations. Corporate overpayments exceeding $10,000 have a 2.5-percent interest rate. The rate charged on underpayments is 5 percent. And large corporate underpayments are charged 7 percent. ♦

Perfect your finances with a personal balance sheet

A good way to chart your progress toward a healthy financial future is to prepare a personal balance sheet every year. It will give you a scorecard to measure how you're doing.

How to chart the health of your finances

A balance sheet shows your assets and your liabilities. Think of them as what you own and what you owe others. The difference between them is your net worth, or the value of your assets (such as homes, bank accounts and investments) minus your debts (such as mortgages, loans and credit cards).

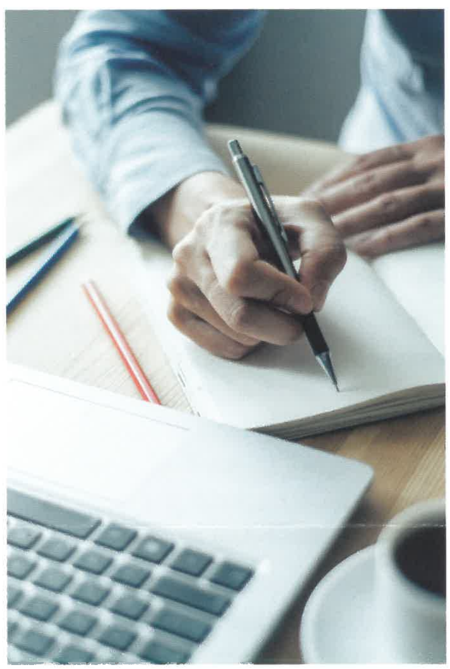
Here's a quick guide to creating a useful personal balance sheet:

› Pick a date

A good idea is to choose a day at the end of the year or the end of a quarter when you'll have statements available for all your financial accounts.

› List all your financial assets

Include bank accounts, balances in IRAs and retirement plans, stocks, mutual funds, investments and any other assets. Remember to include the value of your home and any other valuable property.



› Assign value

Assign a value to your non-monetary assets, such as your house, car and personal belongings. For most purposes, it's not essential that you find an exact value. Using the same approach from year to year is more important.

To value your house, look for comparable properties and talk to a realtor. Another approach is to use the assessed value shown on your property tax statement. This is generally less than market value, but should reflect annual changes in the local property market.

For personal property, make a reasonable estimate. Consider reviewing online resources for used cars and other property sold on sites like ebay and Amazon. Remember to use the same sources each year to help you create a reasonable constant for year-to-year comparisons.

› List your liabilities

Now put together a list of everything you owe others. This includes your mortgage balance, student debt and any other loans. Include credit card debt, car loans, boat loans and other personal debt.

› Total up your assets and liabilities

The difference between the two totals is an estimate of your net worth. Hopefully it shows an increase from the previous year.

If your net worth is not increasing, use your balance sheet to see where you're falling short. Look for ways to boost the growth of your assets, and create a plan to reduce your liabilities.

Your personal balance sheet is more than just a good financial scorecard. If you have questions about how you can use your balance sheet for tax planning purposes, give us a call. ♦

3 tax-friendly college savings options

With tuition costs rising each year, setting aside funds for college can be a daunting task. Here are a few options that may lessen the financial burden of college in a tax-savvy way:

Section 529 plan

Consider putting after-tax money into a Section 529 college savings account. Contributions aren't deductible, but earnings will grow tax-free in these plans when used to pay qualifying educational expenses.

Plan funds can be used for college tuition, room and board, computers and related equipment. Unused fund earnings are subject to income tax. There are no contribution phaseout limits. However, the account owner's contributions plus other gifts totaling more than $15,000 in 2018 for one student may be subject to gift taxes.

Section 529 plans can also be used for up to $10,000 in tuition expenses for elementary and secondary public, private and religious school.

Good for: Parents and grandparents who want to save for their kids' school tuition and other related expenses while still receiving a tax break.

Coverdell Education Savings Account (ESA)

Another option is this flexible account. You can choose from a wide variety of investments to meet your individual needs, like an IRA.

Funds in this account can be withdrawn tax-free if used for qualified education expenses such as tuition, room and board, books, tutoring and more. If the funds are not spent by the time the beneficiary is 30, the unspent money must be withdrawn (subject to income tax and a 10 percent penalty) or rolled over into another family member's education savings account.

The maximum annual contribution for a beneficiary is $2,000 – from all sources. Unlike 529 plans, Coverdell ESA contributions begin phasing out for parents with an adjusted gross income (AGI) of $190,000 (single filers with an AGI of $95,000).

Keep in mind that a Coverdell ESA can also be used for elementary and secondary school expenses.

Good for: Students who have education expense costs and want additional investment options for education savings.

Custodial account

If you're looking for a savings option that goes beyond education, a custodial account may work well for you. With Uniform Transfers to Minors Act (UTMA) and Uniform Gift to Minors (UGMA) custodial accounts, you can generally invest in a wider variety of options versus a Section 529 plan.

The funds are considered property of your child. The tax advantage in these accounts comes into play for unearned income up to $2,100 per year, which are taxed at the child's (usually lower) tax rate. That also means annual investment earnings over $2,100 will be taxed at trust and estate rates.

There are usually no annual contribution limits, but contributions of more than $15,000 may be subject to gift tax rules.

The biggest potential disadvantage is that you gift the funds irrevocably to the child. At a certain age, your child controls the account and could spend the funds on something besides college.

Good for: Parents who give financial gifts to their kids and don't mind handing over control of the accounts when they reach 18 or older.

College is expensive, so consider maximizing as many tax-advantaged options as possible to take some of the sting out of the cost. ♦

Your Tax Calendar

September 17

- ☐ Third-quarter installment of 2018 individual estimated income tax is due.
- ☐ Third-quarter installment of 2018 calendar-year corporation estimated tax is due.
- ☐ Third-quarter installment of 2018 calendar-year trusts and estates estimated tax is due.
- ☐ Filing deadline for 2017 calendar-year tax returns for S corporations with extensions of the March due date and partnerships with extensions of the April due date.

October 15

- ☐ Filing deadline for 2017 individual tax returns on automatic six-month extensions of the April due date.
- ☐ Filing deadline for 2017 calendar-year tax returns for C corporations with extensions of the April due date.

During November

- ☐ Estimate your 2019 income tax liability and review your options for minimizing your 2018 taxes. Call to schedule a tax planning review.

Don't underestimate a written partnership agreement

While a business partner should balance your strengths, they should also be willing to communicate freely and often with you. That includes sitting down and hammering out important issues that will be documented in a partnership agreement.

Creating your partnership agreement

The need for a partnership agreement can be summed up in two words: Things change. You and your partner may agree about everything now, but disagreements and unexpected events are inevitable.

So what should a partnership agreement contain? Basic provisions usually include:

- All parties to the agreement
- The name, purpose and location of the business
- The division of management responsibilities

The agreement should also indicate what initial capital contributions (or services instead of capital) will be made, when additional capital contributions will be required, and how profits and losses will be shared.

Beyond the basics

In addition, a partnership agreement should anticipate major business changes and spell out how to deal with them. Questions to discuss include:

- What are the rights and obligations of the other partner if one partner dies?
- Under what circumstances can a partner leave, retire or be expelled?
- What are the financial arrangements for departing partners?
- How long must an ex-partner wait before starting a competing business?

A partnership agreement can't address every possible contingency, so consider an arbitration clause to handle disputes that you and your partner aren't able to resolve on your own. Without such a clause, your only alternative could be costly litigation.

Your business will run more smoothly with a carefully designed partnership agreement. Your attorney can assist you with the legal aspects of the agreement. Please call with questions regarding your finance and tax-related agreement issues. ♦

Are you considering long-term care insurance?

Long-term care (LTC) insurance usually isn't the first topic to come up in conversation at the dinner table. Many people find it challenging to move this financial planning issue to the top of their to-do list because it lacks the immediacy of health insurance and the certainty of life insurance. When it's finally discussed, LTC has often already become an immediate need.

LTC insurance provides coverage for nursing and personal assistance costs related to chronic illness or disability. Such services are notoriously expensive, potentially wiping out one's life savings. If you want to hedge your future care needs with insurance, review the following factors:

Nursing home or in-home care

Some LTC plans pay only for nursing home expenses and others only for in-home care. A more expensive policy will cover both types of care, plus assisted living or adult day care expenses.

Benefits limits

Most LTC policies provide a monthly or daily benefit limit. Costs above this limit would be your responsibility.

Policies also vary as to the timing of the coverage. A plan might require you to pay the first few months of care out of your own pocket (called the elimination period). Further, some policies will pay benefits only for a specific length of time, while others pay for life.

Cost

LTC insurance is expensive, but there are two ways you can help ease the burden. First, establish a policy long before you begin having health issues. Old age and ill-health will lead to much higher premiums. The best time to buy a policy is probably many years before you are likely to need it.

Second, seek a qualified LTC policy that is eligible for a tax deduction. If you can write off the premiums, the tax savings will help offset the costs. The rules for deducting LTC insurance premiums are complex, so get details before you buy.

Company choice

The insurance company you choose can be as important as the type of coverage you buy. Research the financial soundness of potential insurance companies by reviewing their industry rating. And ask for references. You should shop and compare LTC policies like you would any significant purchase. Remember, you need this company to be around when you need their services.

It may be difficult to discuss the care you or your loved one will potentially need down the road, but it will be worth it. ♦