

2017 YEAR-END LETTER

TAX PLANNING OPPORTUNITIES

Individual Tax Rates: There is no tax on capital gains or qualified dividends if taxable income < \$37k (\$75k for couples).

ROTH IRA “Loophole”: If your income is too high for a ROTH, consider contributing to a nondeductible IRA and then doing a ROTH Conversion which is not subject to an income limitation. As long as any existing IRAs were funded with pre-tax dollars, no tax results.

Qualified Charitable Distribution: If you are taking required minimum distributions, consider making charitable contributions directly from your IRA. IRA distributions made directly to a charity are excludable from income. The resulting lower AGI reduces percentage limitations on itemized deductions.

HSA and FSA: If offered by your employer, consider setting up a Health Savings Account (HSA) or a Flexible Spending Arrangement (FSA). HSA contributions are deductible and withdrawals are tax free if used for qualified medical expenses. To contribute to an HSA, you must have a High Deductible Health Plan (HDHP). An FSA does not require an HDHP and has the same benefits as an HSA, but all contributions for a given year must be used on qualified medical expenses by the end of that calendar year.

401(k) Limit Increase: For 2018, the contribution limit for 401(k), 403(b), most 457 plans, and the federal government’s Thrift Savings Plan is increased to \$18.5k (\$24.5k for those 50 or older).

DEADLINES & IRS IDENTITY THEFT ISSUES

Payments to Housekeepers, Child and Health Care Providers: Unless hired through an agency, such providers are classified as employees. If you will have paid any such worker > \$2k in 2017, you must issue them a Form W2 by 1/31/18. State unemployment reporting requirements vary.

Payments to Independent Contractors: You must issue Form 1099 by 1/31/18 to any contractors to whom you paid \$600 or more in 2017 in the course of your business (including rentals). Payments to corporations are exempt.

FBAR: If you have foreign financial accounts that totaled > \$10k at any time in 2017, you will be required to file a Report of Foreign Bank and Financial Accounts due April 15, 2018.

Identity Theft: If IRS identifies you as a victim, you will be issued a different Identity Protection PIN each year. Upon receipt, please send us the PIN. For joint returns, each spouse must have their own.

Fraudulent IRS Calls: The IRS will not call you about any tax matter without first sending you a mailing; nor will the IRS demand immediate payment via prepaid debit card, gift card, or wire transfer.

DC, MARYLAND, AND VIRGINIA

Section 529 Education Plans: DC/MD/VA allow deductions for contributions to their state sponsored plans.

ABLE Plans: 529 ABLE plans are now active in DC, MD and VA. Taxpayers can contribute \$14k/year to savings plans benefiting those with disabilities. Earnings are tax free if distributions are used for qualified disability expenses. Plan assets do not count toward Medicaid and SSI qualification.

DC Homestead Deduction and Senior Citizen Real Estate Tax Relief:

(1) Both forms of tax relief apply only to primary residences, not rental properties.

(2) The Senior Citizen Tax Relief applies if household income is < \$129k.

*** For both programs, it is your responsibility to notify DC of any changes in eligibility.

Residential Rental Owner Requirements:

DC: (1) Obtain a business license; (2) register with DC Consumer and Regulatory Affairs (DCRA); and (3) meet the District's housing code compliance standards. Visit: <https://dcra.dc.gov/service/dc-housing-code-standards>.

Montgomery County: (1) Obtain a rental license; (2) pass a lead test if built before 1950; and (3) designate a MD resident agent. Units occupied by relatives, or in the cities of Rockville, Gaithersburg or Takoma Park are exempt. Visit: www.montgomerycountymd.gov/DHCA/housing/licensing.

Arlington County: Obtain a business license. Visit: <https://taxes.arlingtonva.us/business/new-businesses/>.

ESTATE & GIFT PLANNING

Estate and Gift Tax: For 2018, the federal estate tax exemption is \$5.6M which is applied against the total of assets held at death and cumulative lifetime gifts (> the annual \$15k exclusion per donee). The rate remains at 40%. The MD exemption will rise to \$4M and the **DC exemption will rise to the Federal exemption of \$5.6M**. VA has no estate tax. For taxpayers with assets greater than their respective exemption amounts, planning using "marital", "disclaimer", and "irrevocable life insurance" trusts can provide estate tax savings and flexibility. In addition, since neither DC nor MD requires a decedent's estate to add back gifts made during one's life, lifetime gifts are an excellent state estate tax savings tool. Payments for qualified educational expenses and qualified medical expenses are excluded from reportable gifts if paid directly to the institution.

Estate Documents: Review your estate planning documents every five years, whenever there is a change in law, or if you experience a major life event. Please set up an appointment to have your will, trust, and any other estate planning document drafted or reviewed.

DAILY MONEY MANAGEMENT SERVICES

Eddie's wife, Ariane DuBois, continues to accept clients in need of a Daily Money Manager (DMM). Please contact Ariane @ 202.256.0588 or email abramsondmm@gmail.com. To learn what a DMM can offer, visit the DMM Association website [<https://secure.aadmm.com>].