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2018 YEAR-END LETTER

I. TAX CUTS AND JOBS ACT

The TCJA reduced most income tax rates and included the following key provisions:

Personal & Dependent Exemptions: Both were eliminated.

Child Tax Credit: Increased to $2K per qualifying child, with qualifying income limits now at $200K for individuals and $400K for married couples filing jointly [MFJ].

Itemized & Standard Deductions: The standard deduction increased to $12K for individuals and $24K for MFJ. For those itemizing, note the following:

Taxes: The maximum deduction for real estate and state/local income taxes combined is $10K.

Miscellaneous Itemized Expenses: Miscellaneous expenses are removed completely. This includes items such as investment advisory fees, unreimbursed employee expenses, and the portion of tax preparation fees not allocable to rentals or other businesses.

Mortgage Interest: For homes bought after Dec. 31, 2017, mortgage interest is deductible up to $750K of mortgage principal -- a reduction from the $1M threshold for pre-2018 mortgages.

Charitable Contributions: Consider the following planning opportunities:

1. Qualified Charitable Distributions from IRAs: If you are required to take minimum distributions, consider making charitable contributions directly from your IRA. IRA distributions made directly to a charity are excludable from income.

2. "Bunching" Charitable Contributions: If you do not expect the total of your charitable gifts plus other itemized deductions to exceed your standard deduction, consider bunching contributions into one year. For example:

   Assume a single taxpayer plans to give $5K to charity and has $4K in other itemized deductions for each of three years. Since the $9K annual total is less than the $12K yearly standard deduction, this taxpayer would not receive a tax benefit for any of the gifts. On the other hand, if the 3-year total of $15K gifts were bunched into the first year, there would be a tax benefit on $7K [$15K + $4K - $12K].

   When bunching contributions, consider a Donor Advised Fund [DAF] if you are not yet sure what organization you want to receive your gift. A DAF allows for a current year deduction while preserving your right to specify the charities in future years. Most DAFs charge a fee.

Alternative Minimum Tax [AMT]: The top AMT rate remains at 28%, but exemptions are increased.

Pass-Through Deduction: A maximum 20% deduction for qualifying pass-through entities will be allowed under the TCJA, provided that certain income thresholds are met.

Section 529 Education Plans: Up to $10K per year can now be used to pay for private K-12 tuition.

Withholding Adjustments: In 2018, the IRS updated withholding tables which resulted in many employees seeing an increase in their take-home pay. This decrease in withholding will cause some taxpayers to face a tax bill next April.

II. 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 > $2.1K in 2018, you must issue them a Form W2 by 1/31/19. State unemployment reporting requirements vary.

Payments to Independent Contractors: In the course of your business [including rentals], if you pay any non-corporate contractors $600 or more during 2018, you must issue a Form 1099 by 1/31/19.

FBAR: If you have foreign financial accounts that total > $10K at any time in 2018, you are required to file a Report of Foreign Bank and Financial Accounts due April 15, 2019.

Identity Theft: If you have been a victim of tax-related identity theft, at the end of each year the IRS will issue you an Identity Protection PIN. Upon receipt, please immediately send us your assigned PIN.

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

III. DC, MARYLAND, AND VIRGINIA

Section 529 Plans: DC/MD/VA allow deductions for contributions to their state Education and ABLE plans. [ABLE Plans benefit 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 will apply to FY 2019 [10/1/2018 to 9/30/2019] if your total household income for calendar year 2017 is less than ~ $130K.

***** For both programs, it is your responsibility to notify DC of any changes in your 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 [https://dcra.dc.gov/service/dc-housing-code-standards]. If you expect your DC rental property to earn more than $12K of gross revenue per year, you will need to register with the DC Office of Tax and Revenue and file annual personal property and unincorporated business franchise tax returns.

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, Takoma Park, or Gaithersburg are exempt [www.montgomerycountymd.gov/DHCA/housing/licensing].

Arlington County: Obtain a business license [https://taxes.arlingtonva.us/business/new-businesses].

IV. ESTATE & GIFT PLANNING

Estate and Gift Tax: The current **federal estate tax exemption is $11.2M** which is applied against the total assets held at death and cumulative lifetime reportable gifts (i.e., ones greater than the annual $15K per donee exclusion). The rate remains at 40%. **The DC exemption is $5.6M. The MD exemption will rise to $5M for decedents dying in 2019. 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: We recommend that you review your estate planning documents every five years, whenever there is a change in law, or if you experience a major life event.

Please call or email with any tax planning questions or to set up an appointment to have your will, trust, and any other estate planning document drafted or reviewed.

Happy Holidays from all of us at Abramson & Associates, LLC!