

ANDES, ERNST & BLACKMER INCOME TAX

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Tax year 2018

We hope you have all had a wonderful summer and Holiday Season. This newsletter serves to help you prepare for the upcoming tax filing season and be informed of any changes.

First, we want to thank you so much for the confidence you have all shown by your many referrals of new clients, and we would greatly appreciate your continued referrals.

Please remember to check our website at “aebtax.com” for helpful worksheets, updates, and news.

The Tax Cuts and Jobs Act of 2017 (TCJA) eliminated or modified numerous tax provisions starting in 2018. Here's what individuals and families need to know as they get ready for tax season.

Individual Mandate

The individual mandate is still in effect for 2018.

Starting Jan. 1, 2019, individuals who do not purchase health insurance will no longer face penalties.

Income Tax Rates

Marginal tax rates for 2018 are as follows: 10%, 12%, 22%, 24%, 32%, 35%, and 37%. While the tax rate structure remains similar to prior years (i.e., with seven tax brackets), the tax-bracket thresholds increased significantly for each filing status under tax reform.

Child Tax Credit and Credit for Other Dependents

For tax years 2018 through 2025, the Child Tax Credit increases to \$2,000 per child, up from \$1,000 in 2017. Credit for Other Dependents is also available for dependents who do not qualify for the Child Tax Credit. The \$500 credit is nonrefundable and covers children older than age 17 as well as parents or other qualifying relatives supported by a taxpayer.

American Opportunity Tax Credit

For 2018, the maximum American Opportunity Tax Credit that can be used to offset certain higher education expenses is \$2,500 per student, although it is phased out beginning at \$160,000 adjusted gross income for joint filers and \$80,000 for other filers.

Lifetime Learning Credit

A credit of up to \$2,000 is available for an unlimited number of years for certain costs of post-secondary or graduate courses or courses to acquire or improve your job skills. For 2018, the modified adjusted gross income threshold at which the Lifetime Learning Credit begins to phase out is \$112,000 for joint filers and \$56,000 for singles and heads of household.

Student Loan Interest

In 2018 you can deduct up to \$2,500 in student-loan interest as long as your modified adjusted gross income is less than \$65,000 (single) or \$135,000 (married filing jointly). The deduction is phased out at higher income levels.

Estate and Gift Taxes

In 2018 there is an exemption of \$11,200,000 per individual for estate, gift, and generation-skipping taxes, with a top tax rate of 40 percent. The annual exclusion for gifts is \$15,000.

Personal Exemptions

Personal exemptions are eliminated for tax years 2018 through 2025.

Standard Deductions

The standard deduction for married couples filing a joint return in 2018 is \$24,000. For singles and married individuals filing separately, it is \$12,000, and for heads of household, the deduction is \$18,000. The additional standard deduction for blind people and senior citizens in 2018 is \$1,300 for married individuals and \$1,600 for singles and heads of household.

Miscellaneous Deductions

Miscellaneous deductions exceeding 2% of AGI (adjusted gross income) are eliminated for tax years 2018 through 2025. As such, you can no longer deduct on Schedule A investment fees, safe deposit box, job hunting, or unreimbursed employee expenses such as tools, supplies, required uniforms, travel, and mileage.

Casualty Losses

Deduction for personal casualty and theft losses has been eliminated unless incurred in federally-declared disaster area.

Moving Expenses

The deduction for moving expenses has been eliminated for most taxpayers for tax years beginning after Dec. 31, 2017. This does not apply to members of the Armed Forces of the United States on active duty who move pursuant to a military order related to a permanent change of station.

Mortgage Interest

For mortgages that originated in 2018, the interest deduction is limited to interest on debt up to \$750,000 (\$375,000 for married taxpayers filing separately). Also, interest on home equity loans is only deductible if the funds are used for home improvements or traced to business, investment or passive activity expenditures.

Section 529 Plans

529 plans now allow for up to \$10,000 in annual distributions for tuition at public, private, or religious elementary and secondary schools.

Medical Expenses

Medical expenses that exceed 7.5% of your income are deductible. This will increase to 10% in 2019.

Alimony

Beginning with new divorces in 2019, alimony payments to an ex-spouse are no longer deductible and not taxable to the recipient.

Business Tax Provisions for 2018

Pass-through Businesses

Partnership, S Corporation, and sole proprietorship are allowed to deduct 20% of business-related income, subject to certain wage limits and exceptions. The remaining income is subject to normal individual rates. The 20% deduction is not allowed in computing adjusted gross income (AGI), but rather is allowed as a deduction reducing taxable income. It does not reduce income subject to Self-Employment tax. This tax deduction, however, is phased out for owners of professional service businesses whose taxable income exceeds \$315,000 for married individuals filing jointly or \$157,500 for individuals.

Entertainment Expenses

Effective January 1, 2018 no deduction is allowed for entertainment expenses or membership dues to any club organized for business, pleasure, recreation, or other social purpose.

Business Mileage Rates

2019 58 cents per mile driven

Tax identity theft is a significant threat

With fraudsters becoming more sophisticated and large breaches happening so frequently — such as the 2017 Equifax incident which affected 143 million American consumers or the recent Marriott incident — tax identity theft remains a concern. Unfortunately, it can take many forms, so beware if you: Get an unsolicited email or another form of communication asking for your bank account number or other financial details or personal information, such as your SSN — The IRS doesn't contact taxpayers using email, text or other social media channels, so it's likely a scammer is trying to steal your confidential information.

Receive a robocall insisting you must call back and settle your tax bill — Your first contact with the IRS will be through official correspondence by mail; it won't call you out of the blue. Also, the IRS does not demand immediate payment over the phone, threaten to arrest you or demand your credit or debit card number or that you use a certain payment method — such as a gift card — to pay your taxes.

If you receive any suspicious communications from the IRS, you can report the contact by filling out the IRS Impersonation Scam Reporting form or calling 800.366.4484. We also urge you to contact our office for advice whenever you receive a communication from the IRS or believe you might be an identity theft victim.

What exactly is unclaimed property and how do you find out if you have any? Here is what you need to know:

There are two main types of unclaimed property:

- (1) IOUs.** Money that is owed to you that you haven't claimed.
- (2) Forgotten funds.** Money sitting untouched in an account for an extended amount of time.

Specific types of unclaimed property include back wages, life insurance, pensions, tax refunds, bank accounts, money orders, gift certificates and security deposits. For example, many states require banks to turn over funds from checking accounts that have been dormant for over three years.

Tips for managing unclaimed property

1. **Search state and federal databases.** Unfortunately, there is no master database to search for unclaimed property. There is a website called Missing Money endorsed by the National Association of Unclaimed Property Administrators (NAUPA) that can search most states at once, but each state maintains their own database. Be sure to check all states where you have been a resident. More information is provided online by the US government to help track down additional types of unclaimed property.
2. **Don't pay a company to search for you.** Companies are willing to search for unclaimed property for you, but will charge a fee. All unclaimed property data is public information, so anything a search company can find, you can find as well. In most cases, it's best to conduct the search yourself.
3. **Watch out for scams.** Be wary of any notices alerting you to unclaimed property that can be yours for a fee. Often times these scams will ask you to send them money with the promise of more money in return. The Federal Trade Commission (FTC) has some tips to help you spot an imposter.
4. **Take steps to avoid having your property become unclaimed.** The best way to keep your property is to prevent it from becoming unclaimed in the first place. Some ways to do this is to actively manage bank accounts, notify companies when you move, close old accounts, and read all of your mail so you don't miss a claim notice.
5. **File your tax returns.** Consider filing a tax return even if your income is below the requirements to file. Unclaimed refunds with the IRS usually happen when a tax return isn't filed with one of two situations: your employer withheld income tax from your wages or you qualify for a refundable portion of the Earned Income Tax Credit. The only way to know for sure is by filing a tax return for the year in question. If you have past tax returns to file, don't wait — overdue tax returns need to be filed within three years.

Appointments

Please call our receptionist to schedule your appointment. If you prefer to drop off your information, we will call you at a later time to address any questions. This will keep the wait time for those with appointments to a minimum. Mailing, faxing, or e-mailing your tax return information is also still available if you prefer.

When bringing in more than one return (children, parents, etc.) or adding a business or rental etc.

Please let the receptionist know when you schedule your appointment if you may need extra time so they can schedule time accordingly. We do not charge by the hour, and it is OK if you don't end up needing the time.

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What to Bring List

- **NEW CLIENT?** Copy of last year return, dates of birth for yourself, spouse and dependents, and SSNs
- Estimated tax payments, if any
- Wage and Tax statements (W-2)
- Interest Income (1099-INT)
- Dividend Income (1099-DIV)
- Pension Income (1099-R)
- Unemployment Compensation (1099-G)
- Social Security Benefits (SSA-1099)
- Distributions from Profit-Sharing-401(k)- IRA's, etc. (1099-R)
- Alimony income/expense
- Commissions-Independent-Contractor-Self Employment income and expenses (call for add'l worksheet)
- Railroad Retirement Benefits (RRTA-1099)
- Long Term Care Insurance Premiums (even if you don't itemize)
- Active military moving expenses
- Rental property income and expenses
- Income from Partnerships, estates, trusts, S-Corps, etc. (K-1)
- Did you sell any real estate; securities: stocks, mutual fund share, etc?
- You will need:
 - Date of sale and sales price
 - Records of date of purchase and original cost
 - Cost of improvements (real estate)
 - Did you buy a personal residence?
Please bring closing statement from purchase of home.
 - Did you sell your personal residence?
You will most likely not have to report this, but please let me know. In the event it is reportable, you will need:
 - 1099-S Proceeds from Real Estate Transactions
 - Closing statement from purchase of home
 - Closing statement from sale of home
 - Records of any improvements
 - IRA/SEP/KEOGH contributions/rollovers/ withdrawals
 - Gambling/Lottery Winnings

- Child care expenses so you could go to school/ work - need name, address, SSN, and full amount paid to each day care provider even if you did pre-tax
- Form 1095-A (if you enrolled in health insurance coverage through the Health Insurance Marketplace). If you have other health insurance, Form 1094-B/1095-B from your health insurance provider or Form 1094-C/1095-C from your employer.
- National Guard & Reserve Members – Travel expenses for overnight meetings more than 100 miles from home.
- Jury pay - prizes - awards
- Did you sell or trade in any business assets e.g., car, computer, rental property?

You will need:

- Records of date of purchase and original cost
- Records of prior depreciation
- Any settlement statements
- Date and amount of sale
- Any other income from any other source!
- Do you make payments on a student loan? (1098-E)
- Do you pay any higher education tuition for yourself, your spouse, and your dependents? Bring book receipts separately. (1098-T)
- Contributions & distributions from state tuition programs (1099-Q)
- Adoption expenses
- To itemize your deductions, we will need:
 - Out of pocket medical expenses (must exceed 7.5% of income to help) Health Insurance counts only if not paid through a pre-tax pay- roll deduction. Includes medical, dental, Rx, chiropractic, co-pays, deductibles, etc.
 - Did you buy or sell a home? I will need your closing statements for possible deductions
 - Home mortgage interest (1098)
 - Real Estate/Personal property tax receipts
 - Charitable contributions
 - Gambling losses