

TaxUpdate

2018 TAX TIPS NEWSLETTER

Kim R Michael-Lee, CPA,CGMA

website: KimMichaelLee.com

359 Erie Cir

Bloomington, IL 60108-8815

PHONE: 630-924-0881

FAX: 630-924-0882

E-MAIL: taxteacher@sbcglobal.net

Greetings! Buried inside the thousands of pages of tax code are ideas that can save you money at tax time. Here are some great tax tips that you can put into practice right away.

Be Sure it's Really the IRS

Headlines are filled with hackers stealing your personal information. The IRS is not immune to this identity theft epidemic. Here are tips to ensure you are not duped into believing you are being contacted by the IRS.

1 Not by phone. The IRS will not initiate contact with you over the telephone. If you receive a call from someone saying they are from the IRS, hang up.

2 Never give OR confirm personal information. Do not provide personal information to anyone presenting themselves as a person in authority like the IRS. This includes confirming your name, address, phone or Social



Security number. Often this scam is attempted using the phone, but receiving fake emails and regular mail scams are now more common.

3 Ask for identification. All IRS employees are given an identification number. Ask for a name and badge number. Write them down.

4 Use independent verification. If you receive notice from the IRS, you should be able to independently verify its validity. This can be done by contacting the IRS directly through contact information found on www.irs.gov.

5 Ask for help. If you are ever contacted by the IRS, immediately ask for help. It is always better to have someone in your corner that knows the tax law.

Five Tax-Loss Harvesting Tips

Most investment portfolios have a few lemons in them. Using the tax strategy of *tax-loss harvesting*, you may be able to turn those lemons into lemonade. Here are five tips:

TIP 1 Separate short-term and long-term. Divide your investments into short-term and long-term buckets. Short-term investments are those you've held a year or less, and their gains are taxed as ordinary income. Long-term investments are those you've held more than a year, and their gains are generally taxed at lower capital gains tax rates. A goal in tax-loss harvesting is to use losses to offset short-term gains.

Example: By selling stock in Alpha Inc., Sly Stock-sale made a \$10,000 profit. Sly only owned Alpha Inc. for six months, so his gain will be taxed at his ordinary income tax rate of 35 percent (versus

15 percent had he owned the stock more than a year). Sly looks into his portfolio and decides to sell another stock for a \$10,000 loss, which he can net against his Alpha Inc. short-term gain.

TIP 2 Follow netting rules. Understand the IRS netting rules and use them to your advantage whenever possible. Short-term losses must first offset short-term gains, while long-term losses first offset long-term gains. Only after you net out each category can you use excess losses to offset other gains. So if you have short term gains, it is nice to offset them with other losses, even if those losses are from long-term investments.

TIP 3 Offset \$3,000 in ordinary income. In addition to reducing capital gains tax, excess losses can also be used to offset up to \$3,000 of ordinary income. If you still have excess losses after reducing

both capital gains and ordinary income, you can carry them forward to use in future tax years.

TIP 4 Beware wash sales. The IRS prohibits use of tax-loss harvesting if you buy a "substantially similar" asset within 30 days before or after selling it. Plan your sales and purchases to avoid this problem.

TIP 5 Consider administrative costs. Tax-loss harvesting comes with costs in both transaction fees and your time spent evaluating your portfolio. Reduce the hassle by conducting tax-loss harvesting once a year as part your annual tax-planning strategy.

Remember, you can turn an investment loss into a tax advantage, but only if you know the rules.

Great Tax Tips for 2018

With the passage of the Tax Cuts and Jobs Act, no one really knows the impact it will have on your upcoming tax obligation. With all this uncertainty, here are some great tips to help navigate filing your 2018 tax return:

1 Document home equity use. Home equity loan interest is now only deductible if you use the funds to buy, build or substantially improve a qualified residence. Document and keep receipts for all home equity loan expenditures.

2 Look at last year's tax return. To project next year's tax obligation, first look to last year's tax return. Focus on what is going away. Keep track of these changes, as it will impact your tax obligation in 2018.



3 Count on a new, improved Child Tax Credit. Account for a \$2,000 tax reduction for each child under the age of 17. More taxpayers will be eligible for the credit due to the increased phase out limits (\$200,000 single and \$400,000 married joint filers).

4 You need Form 1095. Penalties are still in place for those who do not carry health insurance. Form 1095 is required as proof you are covered and must be mailed to you by the end of January 2019.

5 Filing for kids may be easier...maybe. With increases in the standard deduction to \$12,000 for single filers, many more tax returns will not be required to be filed. But be careful, if you have tax withheld or are able to get a refundable credit, you may still need to file a tax return.

6 Get help. This is more important than ever in 2018. Over 500 pages of new tax laws means you will need help in navigating the new tax landscape.

New Postcard Tax Form Means: GET HELP

This summer the IRS unveiled a new draft version of the 2018 Form 1040. This newly proposed postcard-sized Form 1040 replaces the old 2017 1040, as well as forms 1040EZ and 1040A.

What is changing?

Fewer lines. The new form has only 23 lines — 50 lines less than the 2017 1040.

Six new schedules. The 2018 Form 1040 is now seven tax forms. The 50+ lines removed from the old 1040 now exist on one of six new schedules.

What you need to know

Virtually everyone now files multiple forms. Now the majority of taxpayers will need to complete at least one of the new schedules to file with their 1040. Even taxpayers previously using the simple 1040EZ might be required to file an additional schedule or two.

The postcard goal is met. While the proposed Form 1040 is postcard-sized, the type is now smaller and the form now requires major reprogramming.

A confusing new Form 1040 is one more reason taxpayers will need help navigating this new tax landscape in 2018.

Check for the Nanny Tax

If you regularly pay a gardener, housekeeper, nanny, babysitter or any other household service provider, don't run afoul of the IRS household employee rules, often called the "Nanny Tax." Here are some tips:

Step 1: Determine if you have a household employee

Many taxpayers unwittingly establish an employer relationship when they hire someone to help around the house. To decide whether a household worker is your employee, the IRS looks at whether you:

- Control how and when their work is done.
- Provide them with supplies and equipment.

The IRS also considers whether the relationship is permanent, and whether a worker is economically dependent on their employment with you. A worker may be considered an employee regardless of the hours worked.

Tip: The more independent the worker is, the less likely they are to be considered your employee. Have your worker set their own hours and use their own tools. Also have them invoice you for their work and provide you with receipts.

Tip: If the worker works for another company that issues them a W-2, or they run their own company that offers services to the general public, you are generally safe from having them considered as your employee.

Step 2: If yes, determine the tax consequences

The \$2,100 limit. If you pay less than \$2,100 in a year (or \$1,000 in any calendar quarter) you generally are not responsible for paying employment taxes. Payments over these limits may require you to withhold and pay Social Security, Medicare and unemployment insurance taxes.

Overtime. You may be required to pay overtime, depending on federal and state laws.

Timing is important. Employment taxes must be paid regularly throughout the year or you could be faced with fines.

Other considerations. You may also need to purchase worker's compensation insurance to cover yourself should there be any injuries while they are working for you.

Think critically about the relationship before hiring a domestic worker. Consider getting a formal employment contract in place, and call for help to create a plan to handle your tax obligations.