Collier Legacy Planning llc

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Retirement • Income • Medicare

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Hattie Sherwood Park, Green Lake

Keep these things in mind and you'll do fine!

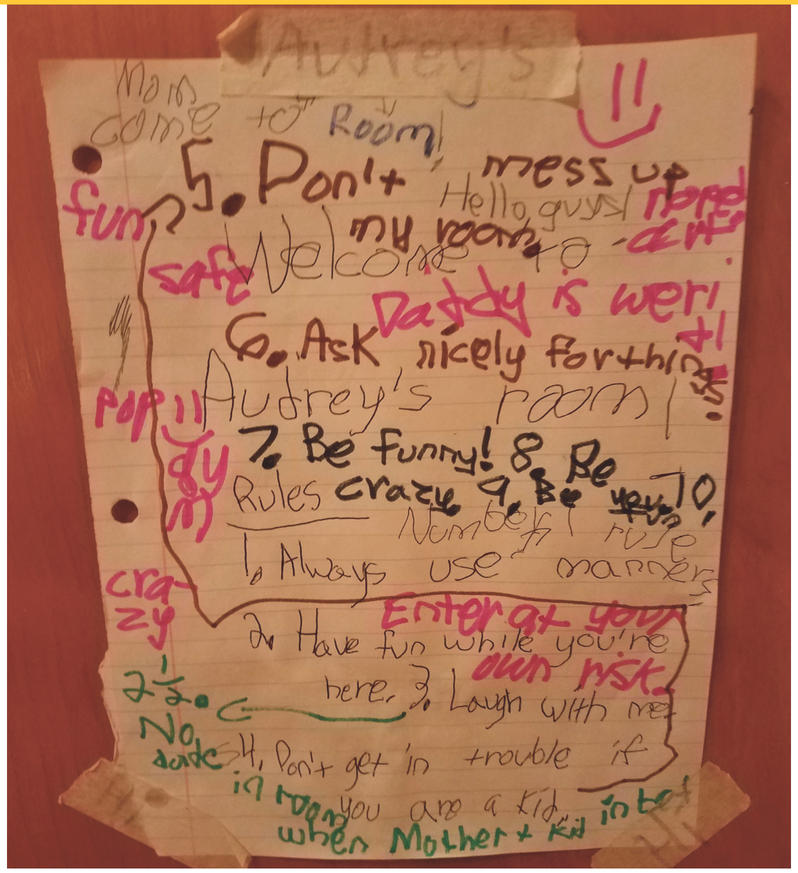
As this list of rules (and other sidenotes!) on my daughter's bedroom door kept growing, I found myself thinking-this is really good stuff… I am going to be more alert to her pearls of wisdom!

I thought you might enjoy reading them, too. Here is some translation/clarification as she clearly gets her handwriting/notetaking skills from her father!—*Ray Loth*

Welcome to Audrey's room!
RULES

1. **Number 1 rule: Always use manners.**
2. **Have fun while you're here.**
   2-1/2. **No dads in room when Mother & kid in bed.**
3. **Laugh with me.**
4. **Don't get in trouble if you are a kid.**
5. **Don't mess up my room.**
6. **Ask nicely for things.**
7. **Be funny!**
8. **Be crazy.**
9. **Be you.**
10. **(Be) fun.**

Daddy is weird!



The Tax Cuts and Jobs Act (TCJA) Overview

By Todd Hoeft E.A.

In December of 2017, our government passed revisions to the tax code through the Tax Cuts and Jobs Act (TCJA). These sweeping changes were initially billed as a simplification of the tax code. It is a humorous anecdote among tax professionals that when you put a bunch of tax lawyers in a room with the intent of streamlining the tax laws, the least possible outcome will be simplification. They did deliver the sweeping changes to the code, but most did not make your taxes any easier to prepare or plan for. As the changes are numerous and affect every entity (individuals, businesses, estates, trusts, and tax exempt), we will focus on some of the individual provisions which will affect most taxpayers.

That new code changed the tax brackets and the tiered tax rates within those brackets. 2017 rates were 10%, 15%, 25%, 28%, 33%, 35%, and 39.6%. Those rates have been revised for 2018 to 10%, 12%, 22%, 24%, 32%, 35%, and 37%.

The new standard deduction is $12,000 for single and married filing separately filers, $24,000 for married filing joint and surviving spouse filers, and $18,000 for head of household filers. If you are married and over age 65 or blind, the standard deduction is increased by $1,300. If you are unmarried or head of household over age 65 or blind, the standard deduction is increased by $1,600. With the increased standard deductions, fewer taxpayers may benefit from itemizing deductions, hence the claim of simplification of the tax laws by the TCJA.

Although the standard deductions have increased, the 2017 deduction for personal exemptions of $4,050 per person has been eliminated in 2018. This is projected to lower the positive effect of the increase in standard deductions on the computation of taxable income.

The TCJA has also increased the amount of the child tax credit to $2,000 per qualifying child under age 17 (up from $1,000 in 2017) and created a new nonrefundable family tax credit of $500 per qualifying child not eligible for the child tax credit.

Although the nature and limits of itemized deductions have been significantly changed by the TCJA, we are advising taxpayers to submit the usual items they have always submitted when they schedule 2018 tax planning and preparation meetings, as some will still be able to utilize itemized deductions in excess of standard deduction amounts. Some of the significant changes to these itemized deductions are a

"Tax Cuts and Jobs Act Overview" continues on the next page.

"Tax Cuts and Jobs Act Overview" continued...

reduction in the medical expense deduction floor from 10% to 7.5% in 2018 (this has not changed for taxpayers attaining age 65 before the end of the tax year).

Miscellaneous deductions subject to the 2% of adjusted gross income are suspended for 2018. These include unreimbursed employee expenses, investment expenses, union dues, and tax preparation fees.

There is a new $10,000 limit on the deduction of state and local taxes, which include but are not limited to state income/withholding taxes, property taxes, and general sales taxes.

The TCJA has also suspended the deduction for interest paid on home equity loans and lines of credit unless they are used to buy, build, or substantially improve a qualifying residence that secures the loan. Taxpayers may still deduct home mortgage interest on indebtedness to acquire a qualified residence but are limited to $750,000 (MFS $375,000) of acquisition debt. The limit is $1,000,000 (MFS $500,000) to any indebtedness incurred on or before December 15th of 2017.

The TCJA increases the limitation for certain charitable contributions but denies the deduction for college athletic event seating rights.

This article is intended to inform you of some of the basic changes which will affect the individual taxpayer. This article is not meant to be an exhaustive list of changes. These are broad strokes of information and each taxpayer will have differing outcomes when the new laws are applied to their specific tax return preparation and planning situations. We advise meeting with your tax professional to explain in greater detail how these changes will affect you.

We wish you all the best in 2019.

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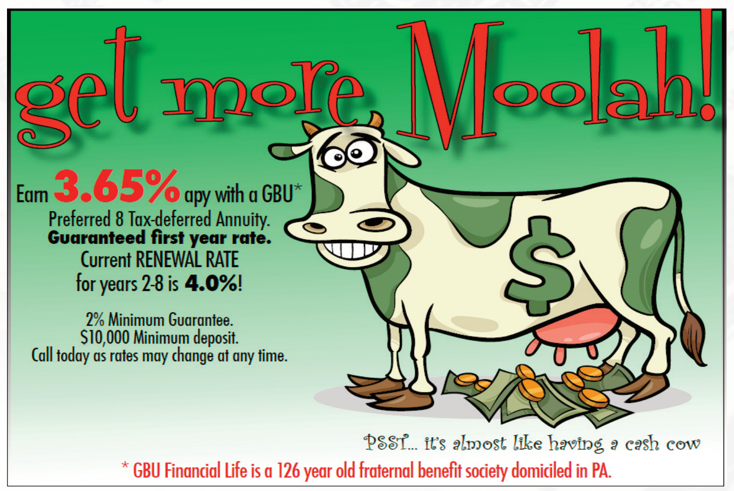
Todd Hoeft is an Enrolled Agent and has been granted unrestricted rights to represent taxpayers before the Internal Revenue Service by demonstrating special competence in tax matters while adhering to the ethical standards and requirements to stay current with tax laws and regulations through annual continuing education requirements. He is a member of the National Association of Enrolled Agents and the Wisconsin Society of Enrolled Agents. Hoeft Accountants LLC has offices in Oshkosh and Ripon, Wisconsin.

Photo: Jrosenberry1, Wikimedia Commons



Above, center: Ed Slott, known as America's IRA expert, with Ray and Suzanne Loth

Photo: Corey Coyle, Wikimedia Commons

"What could be better than a guaranteed paycheck that lasts as long as you live and is unaffected by the vicissitudes of the stock market?"

—Sandra Block, "Making Your Money Last," *Kiplinger's Personal Finance*, October, 2016

Case Study

How clients saved 45% for major medical expenses

Mr. and Mrs. X have a pre-'Obamacare', individual, non-Medicare health plan with an $11,000 deductible.* In the past I have mentioned to this couple the option of saving funds in a tax-advantaged HSA account. They can put up to $6,750/yr. in this account and use the full amount as a deduction on income taxes (like a traditional IRA) which they have been doing for a couple of years. The best part of an HSA account (unlike a traditional IRA) is that when you pull the money out for qualified medical expenses** you do NOT have to claim the money as income at that time either! Therefore you **NEVER pay income taxes** on that income!

Recently Mr. and Mrs. X spent about $6,000 (tax free money!) on braces for their child from the account. As it turns out some medical issues then came up for these clients in 2018 and it came time to pay up on that large deductible! (Happily the medical matters were successfully resolved.) In talking with the clients we shared an idea to maybe save even more on these medical expenses besides the already present tax savings. We suggested that they talk to the provider (hospital, clinic, etc.) billing departments and first ask what type of a payment plan they could offer to pay off the debt (Some tears might help at this point!)…*and then to ask what type of a reduction they could offer if the debt was paid off **in full**!* Much to the clients delight, for the largest bill of $10,131 they were told they could have a 30% reduction if they paid in full! This **brought the bill down to $7,092, saving 3,039 real dollars!**

But how much did they save altogether? Well, with these suggestions, the client only had to **EARN $7,801** (having $7,092 left***). If they hadn't implemented these two strategies (HSA acc't & billing negotiations), in order to have enough left after taxes to pay the full $10,131 they would have had to actually **EARN around $14,289!** That is a **savings of about $6,488, real dollars, or 45%!!**

Please note that we are not tax advisors or giving tax advice but only sharing a case study that has been reported to our office. Please check with your tax advisor to see if you qualify for an HSA account (set-up N/A on Medicare) and the tax advantages of them. —Ray Loth

* This is a very large deductible, however, Mr. and Mrs. X are not eligible for ACA ('Obamacare') premium subsidies and have saved over $19,000 in lower monthly premiums over 4 years on this grandfathered plan.

** Qualified medical expenses may also include dental, optical, etc. for married spouses and dependents as explained by your tax advisor (*Imagine how much this could help some families!*).

*** FICA taxes of 9.1% are not avoided with an HSA.

Ask the Professional...

What is a ROTH Conversion?*

A ROTH conversion is a when you pay the taxes on (or recognize as income) your traditional IRA (etc.) so you can **gain the benefits of having** ROTH IRA instead.[??]

What is the difference between a ROTH and a Traditional IRA? With a **ROTH IRA** you do pay income taxes on the contribution and therefore do not get an income tax deduction on the deposit. But the GREAT news is when done properly you do not EVER have to pay taxes on the growth! It grows, and is withdrawn, tax free!

With a **traditional IRA** you get to deduct the contributions from your income for the year, but you do then have to pay taxes on the full account value once you start making withdrawals, it is only tax deferred.

Granted, it is tempting to take the tax deduction now, but it may (or may not) be wiser to pay now so as to save later. The **analogy is to gardening:** with a ROTH you pay taxes on the seed; with a traditional you pay taxes on the harvest. On which amount (volume), and when, would you prefer to pay taxes?

So should YOU do a ROTH conversion? Many would say that it is worth considering if you are not currently in a high tax bracket, have some years before retirement, and/or are married. Many nationally known advisors are trying to alert retirees and pre-retirees to the fact that traditional IRAs, 401Ks, etc. are in many respects an unpaid (future) debt to Uncle Sam…an unknown debt because the government doesn't actually tell you how much you owe until you start withdrawing (based on tax rates, marital status, etc. at the time). Think of that: I'll remodel your house for you, but I won't tell you how much it will cost until I'm done. Sign here!

A ROTH conversion is simply one way to gain some control over the inevitable. There are two basic components that might (depending on your circumstances) be good to consider: (1) Many people feel that taxes are now at an all-time low and it therefore may be a good time to pay some tax on your IRA's …so you actually know how much money you really have left over (2) Many advisors, including Ed Slott, alert married clients to the so-called "widow tax" which involves the (generally) 50% reduction in tax brackets for single versus married filers.

Finally, actually doing a ROTH conversion is as simple as any other rollover, with maybe an extra form— after having discussed the merits of it with your accountant. *—Ray Loth*

**Please note that we are not tax advisors, attempting to give tax advice, or explain IRS codes. These are some basic components of retirement planning that come up in client conversations. Please consult with your personal licensed tax advisor on your circumstances and the details of IRS regulations.*