2018 STRATEGIC TAX PLANNING

DON'T PAY UNCLE SAM MORE OF YOUR MONEY!!!

From the Desk of Ebere Okoye, The Wealthbuilding CPA

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2018 tax brackets

1) Lowered marginal tax rate from 10%, 15%, 25%, 28%, 33%, 35%, 39.6%

   To 10%, 12%, 22%, 24%, 32%, 35%, 37%.

Standard deduction and personal exemption

Personal exemption is eliminated but standard deductions are "doubled"

2018 Standard deduction:
Single ($12,000), Married Filing Jointly ($24,000), Married Filing Separately ($12,000)
Head of Household ($18,000)

Tax breaks for parents

Child tax credit changed from $1,000 to $2,000 and a refundable credit to $1,400.

New Phase-out threshold credit below: Married Filing jointly - $400,000, Individuals-$200,000

In addition, if your children are 17 or older or you take care of elderly relatives, you can claim a refundable $500 credit, subject to the same income thresholds.

Education tax breaks

People may use the funds in 529 for their child in private school or tutors in K-12 grade levels.

Mortgage interest, charitable contributions, and medical expenses

Mortgage Interest Deduction: only valid for debt up to $750,000. And interest on the home equity debt is not deductible anymore

Medical Expenses Deduction: Reduced from 10% AGI to the old 7.5% of AGI

The SALT deduction

Deduction only valid for amount to $10,000, including income, sales, and property taxes

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Deductions that are disappearing
Casualty and theft losses, Unreimbursed employee expense, Tax preparation expenses, Other miscellaneous deductions previously subject to the 2% AGI cap, moving expense, Employer-subsidized parking and transportation reimbursement,

Corporate tax rates
Bill lowers the corporate tax rate to a flat 21% on all profits.
The corporate AMT of 20% has been repealed.

The pass-through deduction -- does it apply to you?
Taxpayers with pass-through businesses are able to deduct up to 20% of their pass-through income. 20% deduction for qualified business income received from a pass-through entity are only valid to business other than professional services business like doctors, attorney, accountants, performing artists, professional athletes, people who works in the financial services or brokerage industry, and any trade or business where principal asset is the reputation or skills of the owner. However, the tax reform did not give a detailed explanation on section of financial services and trade or business. The availability of the deduction is limited in several ways. The availability of the deduction is limited in several ways. Under the final tax reform bill, the deduction is limited to the greater of (a) 50 percent of W-2 wages, or (b) 25 percent of W-2 wages plus 2.5 percent of qualified property. The reason for that provision is because W-2 wages do not include amounts that are not properly allocable to qualified business income.

When it comes to computing the wage and property limits, there is some additional restriction too. Frist, W-2 wages do not include guaranteed payments paid to the partners and exclude compensation to S corporation shareholder/owner. Second, eligible W-2 wages are allocated to shareholders and partners in the same proportion as the original deduction for wages. Lastly, qualify property is limited to tangible property held by, and available for use in, a qualifying pass-through trade or business. If the property is no longer held by, or available for use in, then it cannot be used to determine the wage plus property limitation.

The 50 percent wage limitation and the wage plus property limitation does not apply to lower income taxpayer, as well as the definition of qualified business for specified service trade or business.

PARTNERSHIP (MULTI-MEMBER LLC) TAX RETURN CONSIDERATIONS (Applies to tax years 2018 and beyond)

The new partnership audit rules will require partnerships to take certain measures to come into compliance with the new rules, some of which may be addressed in the partnership agreement. Please note that most of these can be addressed by updating your partnership agreement. However some of these rules have be done at the time of the audit. It is not necessary to update your partnership agreement before year end but it's important to note that these changes will need to be made in 2018 prior to the filing of the 2018 tax returns in 2019.

#5 Designating a Partnership Representative. The proposed regulations require a partnership to designate a Partnership Representative ("PR") for tax years beginning after 2017 (or, if the new regime is elected earlier, then at that time). Similar to the Tax Matters Partner ("TMP") under the TEFRA rules, a PR is the point of contact between the entity and the IRS. Also like the TMP, a PR may bind the partnership. Unlike the TMP, however, a PR may bind all partners to the conclusions of an audit proceeding. Moreover, unlike a TMP, a PR may be a non-partner, as long as the PR has a substantial U.S. presence. If a partnership fails to designate a PR, IRS may do so on its own initiative. Therefore, a partnership should designate a PR or, at a minimum, determine the procedures for designation.

#6 Preparing for an Opt-Out Election. For those eligible partnerships that prefer to opt out of the new audit rules, an election must be made annually with the filing of the partnership return. In such case, the partnership may consider specifying in the partnership agreement its intent to make the election. In drafting such a provision, the partnership may consider the impact of S corporation partners and the need to secure their agreement. Moreover, any agreement may be set up to avoid ownership by those which would make the partnership ineligible to opt out, such as other partnerships, trusts, disregarded entities and nominees. Partnerships currently ineligible to opt out because of their structure may consider whether to restructure their ownership.

#7 Preparing for a Push-Out Election. Partnerships that either cannot opt out or prefer not to opt out of the new rules may elect to push adjustments out to its reviewed-year partners. In such a case, it may be advisable for the partnership agreement to specify such intent and direct the PR to make a push-out election. A partner entering or exiting a partnership should consider the tax implications of any existing and future tax liability resulting from the partnership's election to push out any imputed underpayment.

#8 Preparing to Modify the Imputed Underpayment. A partnership that makes neither an opt-out nor push-out election may want to modify any imputed underpayment amount as permitted under the proposed regulations. In such case, it may be desirable to specify in the partnership agreement that impacted partners will provide any necessary documentation or file amended returns as needed.

#9 If you generated any kind of active real estate income, have you considered restructuring your business to minimize the impact of self-employment taxes?

#10 If you have significant real estate education expenses, have you registered a business in order to minimize your audit exposure on deducting these expenses

TAX IMPACT EXAMPLES

	OLD TAX LIAB	NEW TAX LIAB
Married Filing Jointly/4 exemptions/AGI $335,325 SAVINGS OF $13,969		
Tax Liability	($73,516)	($63,297)
Credits	$250	$4,000
Net taxes	$73,266	$59,297
Married Filing Jointly/11 exemptions/AGI$182,339 SAVINGS OF $11,648		
Tax Liability	($27092)	($27,094)
Credits	$3350	$15,000
Net taxes	$23,742	$12,094
Single/1 exemption/AGI$93,401 ADDITIONAL TAXES OF ($175)		
Tax Liability	($13,672)	($13,847)
Credits	$0	$0
Net taxes	$13,672	$13,847
Head of Household/3 exemptions/AGI$118,443 SAVINGS OF $971		
Tax Liability	($13,975)	($17,004)
Credits	$1,200	$5,200
Net taxes	$12,775	$11,804

WE WILL BE UPDATING OPERATING AGREEMENT FOR ALL WEALTH BUILDING PLAN CLIENTS IN 2018. IF YOU ARE NOT A WEALTH BUILDING PLAN CLIENT AND ARE INTERESTED IN HAVING YOUR OPERATING AGREEMENT UPDATED, PLEASE FILL OUT THE FORM BELOW AND WE WILL SEND YOU THE INFORMATION AND PRICING

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I am not just your average CPA. I am also an active investor. My reputation has been built through years of experience and innovation in creating tax strategies. By offering tax compliance and planning for top real estate investors in the Washington Metro area, I know what the rich are doing to create, protect, and preserve their assets. All of us have a responsibility to pay tax but none of us should pay more than our share. The tax laws are complex. Most of us do not have access to the kind of information that will allow us to use these loopholes that all taxpayers are entitled to. My personal goal is to educate individuals and corporations on how to keep more of what they make.

SPECIAL OFFER" REGISTRATION FORM

FILL OUT AND FAX BACK TO 1-866-466-3146

Or email to eokoye@acetaxes.com/Or call the office at 301-441-4538

UPDATE MY LLC AGREEMENT!!!

NAME ____

ADDRESS ____

CITY:__________________ STATE:_____ ZIP CODE:_____________

DAY PHONE:_________________ EVENING PHONE:_______________

EMAIL:____

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