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Newsletter

September 2018

## Tax Filing Reminders

### September 17:

- 3rd quarter estimated tax due
- Filing deadline for 2017 S corp. and partnership returns that received extension

With summer coming to a close, now is a good time to assess your tax situation while there is still time to make adjustments if necessary.

Please call if you would like to discuss how any of this information relates to you. If you know someone who can benefit from this newsletter, feel free to forward it to them.

## Is a Tax Surprise Waiting for You?

Often lost in the excitement of large-scale tax change is how they can negatively impact some individual situations. Check out the questions below to see if you might be in for a tax surprise this year.

- **Will you pay more than \$10,000 in state and local taxes?**  
Previously, you could take a full deduction for all state income and property taxes as an itemized deduction. That deduction is now capped at \$10,000 per year. Take a look at your 2017 itemized deductions to see if your state and local taxes were greater than the new cap. If so, you will now lose any excess amount over \$10,000 as a deduction.
- **Do you pay for work expenses?**  
Before this year, employees were able to deduct unreimbursed work expense (business mileage, uniforms, continuing education and other non-reimbursed expenses) as an itemized deduction. These deductions are now gone. If you typically pay for W2 job related expenses, you might be on the hook for more taxes. Employees who deduct business use of their homes may be impacted even more.

- **Do you own a small business?**

There are many business tax changes for 2018. Bonus depreciation and Section 179 expensing are expanded, the domestic production activities deduction (DPAD) is eliminated, and there is a new qualified business income deduction for pass-through entities. It is a near certainty that one or more of these changes will affect your business taxes.

- **Did you adjust your withholding allowances?**

When the tax cuts were finalized, the IRS adjusted the withholding tables as best they could to fit with your current allowances. As a result, your take-home pay likely increased earlier this year. However, based on a recent report by the U.S. Government Accountability Office (GAO), as many as 21 percent of taxpayers will unknowingly underwithhold their taxes throughout the year. If you are one of these people, you will have a tax bill and maybe some penalties to pay next April. It would be time well spent to double-check your withholding for 2018.

- **Do you have children?**

Some good news! The Child Tax Credit is now double to \$2,000 per child versus \$1,000 last year. The income limits for the credit are also raised significantly to \$200,000 Adjusted Gross Income (AGI) for single status and \$400,000 AGI for married couples. In some cases, the additional credit will actually offset the loss of the personal exemption that you could take for yourself, your spouse and children in the past.

Now is a great time to do an assessment of your situation in light of the new tax changes. Please call us to schedule a year end review

## Education: Tax Changes You Need to Know

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As students gear up to head back to school, there are some changes to education deductions that could save or cost you more in taxes and even raise college tuition costs. Here is what you need to know to get up to speed:

### What is gone

**Continuing Education as an itemized deduction:** In previous years, you could deduct expenses paid for job-related continuing education as a miscellaneous itemized deduction. This deduction has been eliminated.

**Home equity line of credit (HELOC) interest for education expenses:** A popular method of generating cash to pay for school expenses is taking out a HELOC. Beginning in 2018, you can only deduct HELOC interest if you use the loan proceeds to buy, build or substantially improve your home. This means that if you plan to obtain HELOC for purposes of paying for education expenses, the interest will not be deductible.

## What's new

**529 plans cover K-12 tuition:** Funds from Section 529 savings plans can now be used tax-free to pay for up to \$10,000 in K-12 private school tuition per year. Books, supplies or other K-12 expenses are not included in this change, but they are still eligible as legitimate college expenses. Be careful - not all states have adopted the K-12 inclusion, so they might still be taxable at the state level.

## What stays the same

**Student loan interest deduction:** You may deduct up to \$2,500 in student loan interest in 2018 as an adjustment to income. To qualify, your adjusted gross income must be below \$80,000 (\$165,000 for married couples). Phaseouts start to apply at \$65,000 (\$135,000 for married couples).

**American Opportunity Tax Credit and Lifetime Learning Credit:** All three of these educational tax benefits are available once again. Here's a chart with basic information on these options:

|                           | American Opportunity<br>Tax Credit<br>(AOPC) | Lifetime<br>Learning Credit<br>(LLC) |
|---------------------------|--|--------------------------------------|
| <b>Max Amount</b>         | \$2,500 credit                               | \$2,000 credit                       |
| <b>Refundable?</b>        | Yes - \$1,000                                | No                                   |
| <b>Max Years</b>          | 4  | Unlimited                            |
| <b>Eligible Education</b> | Undergraduate                                | Undergraduate<br>& graduate          |

As a reminder, when you make payments for any education expenses, make sure to keep your receipts and retain any Forms 1098T sent to you from qualifying schools.

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Thank you for selecting our firm for your tax and accounting needs. We appreciate the confidence you have shown in us, and we remain ready to assist you at any time. Also, thank you for recommending us to your family, friends, and associates. We appreciate your referrals.

Scott Jensen  
Kramer & Jensen, LLC

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