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CERTIFIED PUBLIC ACCOUNTANTS

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Newsletter | March 2019

March 2019 Dates to Watch

March 15 - Partnerships

File a 2018 calendar year return (Form 1065). Provide each partner with a copy of Schedule K-1 (Form 1065), Partner's Share of Income, Deductions, Credits, etc. To request an automatic 6-month extension of time to file the return, please contact our office and we will be glad to do this for you.

March 15 - S-Corporations

File a 2018 calendar year income tax return (Form 1120S). Provide each shareholder with a copy of Schedule K-1 (Form 1120S), Shareholder's Share of Income, Deductions, Credits, etc. To request an automatic 6-month extension of time to file the return, please contact our office and we will be glad to do this for you.

April 15 - Individual Income Tax Returns Due

Disappointed in Your Tax Refund?

If your tax refund is less than you anticipated, you are not alone. In a report issued by the Treasury Department on February 14, the average refund it is paying in 2019 has dropped to $1,949 from $2,135 in the prior year. In addition, the number of returns filed so far has dropped from 13.5 million last year to 11.4 million this year for the same period.

With all the hype about how tax reform would reduce taxes, taxpayers were anticipating larger refunds this year but instead are receiving less, on average. This has left the Republican lawmakers who passed the tax reform scrambling to explain why the refunds are lower.

Lower refunds can be especially harmful to taxpayers who count on their refunds to pay their annual property taxes, holiday spending and other debts. Many count on the refunds to pay for summer vacations and other discretionary spending. Some who normally receive refunds may even find themselves owing money this year.

Although most taxpayers will actually pay less in taxes this year, this does not necessarily translate into increased refunds. For most, the tax cut provided more take-home pay during 2018, instead of adding to their refunds at the end of the year. This decrease in withholding spread over 52, 26 or 24 paychecks is far less noticeable than a lump sum added to the refund.

How did this happen? The culprit is generally the amount of tax you had withheld from your paycheck each payday. The tax reform was passed at the very end of 2017, not allowing the IRS sufficient time to adjust the employer withholding tables or the W-4 – Employee's Withholding Allowance Certificate – for the new law. When they did a couple of months later, the revised withholding tables and W-4 produced lower withholding, leading to the lower refunds.

The IRS was aware of this and issued notices almost weekly cautioning taxpayers that the lower withholding would lead to lower refunds or perhaps even them owing instead of receiving a refund. The General Accounting Office estimates that the number of taxpayers who will owe taxes this year will increase from 18 to 21 percent.

If you are affected and want to avoid the same thing from happening next year, you may want this office to compare your current withholding to your projected tax liability so that you can adjust your withholding to produce the result you desire on your 2019 return.

It's Not Too Late to Make a 2018 Retirement-Plan Contribution

Have you been ignoring your future retirement needs? This tends to happen when people are young; because retirement is far in the future, they believe that they have plenty of time to save for it. Some people even ignore the issue until late in life, which causes them to scramble to fund their retirement. Others even ignore the issue altogether, assuming that they will qualify for Social Security and that the resulting income will take care of their retirement needs.

Did you know that you can make retirement savings contributions after the close of the tax year and that these contributions may be deductible? With the April tax deadline in the near future, the window of opportunity is closing to maximize contributions to retirement and special-purpose plans for 2018. Many of these retirement contributions will also deliver tax deductions or tax credits for the 2018 tax year.

Contribution Opportunities – Some 2018 retirement contributions are available after the close of the year.

- **Traditional IRAs** – For 2018, the maximum traditional IRA contribution is $5,500 (or $6,500 if the taxpayer is at least 50 years old on December 31, 2018). A 2018 traditional IRA contribution can be made until April 15, 2019. However, for taxpayers who have other retirement plans, some or all of their IRA contributions may not be deductible. To be eligible to contribute to IRAs (of any type), taxpayers—or spouses if married and filing jointly—must have earned income such as wages or self-employment income.

- **Roth IRAs** – A Roth IRA is a nondeductible retirement account, but its earnings are tax-free upon withdrawal—provided that the requirements for the holding period and age are met. Roth IRAs are a good option for many taxpayers who aren't eligible for deductible contributions to a traditional IRA. For 2018, the contribution limits for a Roth IRA are the same as for a traditional IRA: $5,500 (or $6,500 if the taxpayer is at least 50 years old). A 2018 Roth IRA contribution can also be made until April 15, 2019.

Caution: For those who have both traditional and Roth IRA contributions, the combined limit for 2018 is also $5,500 (or $6,500 if the taxpayer is at least 50 years old).

- **Spousal IRA Contributions** – A nonworking spouse can open and contribute to a traditional or Roth IRA based on the working spouse's earned income. The spouses are subject to the same contribution limits, and their combined contributions cannot exceed the working spouse's earned income. Spousal IRA contributions for 2018 must also be made by April 15, 2019.
- **Simplified Employee Pension IRAs** – Simplified Employee Pension IRAs are tax-deferred plans for sole proprietorships and small businesses. This is probably the easiest way to build retirement dollars, as it requires virtually no paperwork. The maximum contribution depends on a business's net earnings. For 2018, the maximum contribution is the lesser of 25% of the employee's compensation or $55,000. A 2018 contribution to such a plan can be made up to the return's due date (including extensions). Thus, unlike a traditional or Roth IRA, a Simplified Employee Pension IRA can be established and funded for 2018 as late as October 15, 2019 (if an extension to file a 2018 Form 1040 has been granted).
- **Solo 401(k) Plans** – A growing number of self-employed individuals are forsaking the Simplified Employee Pension IRA for a newer type of retirement plan called a Solo 401(k) or Self-Employed 401(k). This plan is available to self-employed individuals who do not have employees, and it is notable mostly for its high contribution levels.
  For 2018, Solo 401(k) contributions can equal 25% of compensation, plus a salary deferral of up to $18,500. The total contributions, however, can't exceed $55,000 or 100% of compensation. Note that an individual must have established the Solo 401(k) account by December 31, 2018, to make 2018 contributions. However, contributions to an established account can then be made up to the return's due date (which can be extended to October 15, 2019, for most taxpayers). Taxpayers who did not establish a Solo 401(k) account by the end of 2018 can still open one now for 2019 contributions.

- **Health Savings Accounts** – Health savings accounts are only available for individuals who have high-deductible health plans. For 2018, this refers to plans with a deductible of at least $1,350 for individual coverage or $2,700 for family coverage. These accounts allow individuals to save money to pay for their medical expenses.

  Money that an individual does not spend on medical expenses stays in that person's account and gains (tax-free) interest, just like in an IRA. Because unused amounts remain available for later years, health savings accounts can be used as additional retirement funds. The maximum contributions for 2018 are $3,450 for individual coverage and $6,900 for family coverage. The annual contribution limits are increased by $1,000 for individuals who are at least 55 years old. Contributions to a health savings account for 2018 can be made through April 15, 2019.

Please note that the information provided above is abbreviated. Contact this office for specific details on how each option applies to your situation.

Saver's Credit – Low- and moderate-income workers are eligible for a saver's credit that helps them offset part of the first $2,000 that they contribute to an IRA or a qualified employer-based retirement plan. This credit helps individuals who don't normally have the resources to set money aside for retirement, and it is available in addition to the other tax benefits that are associated with retirement-plan contributions.

This credit is provided to encourage taxpayers to save for retirement. To prevent taxpayers from taking distributions from existing retirement savings and then re-depositing them to claim this credit, the qualifying retirement contributions for the credit are reduced by any retirement-plan distributions taken during a "testing period": the prior two tax years, the current year, and the portion of the subsequent tax year up to the return's due date (including extensions).

Children with Earned Income – Many children hold part-time jobs, and after the recent tax reform, the standard deduction allows these children to earn $12,000 tax-free. This earned income also qualifies children for IRA contributions. Although children may balk at contributing their hard-earned income to an IRA, their parents or grandparents can gift Roth IRA contributions to children. That Roth IRA will significantly increase in value by the time the child reaches retirement age, 45 or 50 years later.
Individuals' financial resources, family obligations, health, life expectancy, and retirement expectations vary greatly, and there is no one-size-fits-all retirement strategy. Events such as purchasing a home or putting children through college can limit retirement contributions; these events must be accounted for in any retirement plan.

If you have questions about any of the retirement vehicles discussed above or if you would like to discuss how retirement contributions will affect your 2018 tax return, please give this office a call.

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.

Scott Jensen
Kramer & Jensen, LLC

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