

FALL 2018

## **TAX NEWSLETTER**

In last year's newsletter I reported that Congress approved the Tax Cuts and Jobs Act (TCJA) and I listed some of the more significant changes to the tax code. This Act will significantly affect your 2018 taxes by reducing tax rates, doubling the standard deduction, eliminating the personal exemption, phasing out the AMT tax, increasing the child tax credit and eliminating and limiting certain itemized deductions.

In preparing projections based on 2017 income I expect that about 60% of you will see a decrease in your federal taxes in 2018. You will also see substantial changes to the federal tax forms. I anticipate that many of you will have many questions and I encourage you to make your tax appointments or send your tax information to us as early as possible.

### **Other Changes under the TCJA**

#### **Roth IRA Conversions**

As you know if you convert your IRA or retirement plan to a Roth Plan you create accounts that are free from future taxes. However, you would need to pay the tax on the amount that you convert up front. However since the tax rates have been lowered and the standard deduction doubled, it may be more attractive to do a Roth conversion. Under TCJA lawmakers did away with a key provision that allowed the Roth conversion to be reversed.

#### **Gifting**

For 2018 the annual gift exclusion has increased from \$14,000 to \$15,000 per person per year.

#### **The New Kiddie Tax**

The TCJA made substantial changes to the Kiddie Tax. The new tax on a child's unearned income is not calculated by reference to the parent's tax rate but instead involves a complicated calculation of modified trust and estate tax rates and brackets. Additionally, in 2018 a parent cannot elect to report and pay the tax on a child's unearned income on their own return.

#### **20% Pass-through Business Income Deduction**

The 20% pass-through deduction for those with qualified trade or business income (Section 199A) could be a big deal. This includes income earned by sole proprietorships, LLCs, partnerships, and S corporations.

Under the new law, taxpayers with pass-through businesses will be able to deduct 20% of their pass-through income. In other words, if you own a small business and it generates \$100,000 in profit in 2018, you'll be able to deduct \$20,000 of it before the new 2018 tax rates are applied.

However, individuals in professional service industries are restricted. Any trade or business involving the performance of service in the fields of health, law, accounting, actuarial science, performing arts, consulting, athletics, financial services, brokerage services, or any trade or business where the principal asset of the business is the reputation or skill of 1 or more of its employees will have phase-out income limits that apply. These income limits are set at \$157,500 for single filers and \$315,000 for pass-through business owners who file a joint return.

The Section 199A is extremely complex and will require us to perform several calculations.

### 529 Plan

Under the 2018 tax law, parents can now use 529 plans to cover tuition at private elementary and high schools, similar to the Coverdell. The real benefits here are for affluent families, many who already have kids in private K-12 schools. They can now use a new, or even an old 529 plan, to help pay for private elementary and high school tuition. but it is limited to \$10,000 per year per child.

### Annual Plan Limits

	<u>2019</u>	<u>2018</u>
<b>Compensation</b>	\$280,000	\$275,000
<b>Limits on benefits and contributions:</b>		
Defined contribution plans	\$56,000	\$55,000
Defined benefit plans	\$225,000	\$220,000
401(k), 403(b) and 457 plan elective deferrals	\$19,000	\$18,500
SIMPLE plan elective deferrals	\$13,000	\$12,500
IRA	\$6,000	\$5,500
<b>Catch-up contributions:</b>		
401(k), 403(b) and 457 plans	\$6,000	\$6,000
SIMPLE plans	\$3,000	\$3,000
IRA	\$1,000	\$1,000
<b>"Highly Compensated" definition</b>	\$125,000	\$120,000

**“Key Employee” definition:**

Officer	\$180,000	\$175,000
1% owner	\$150,000	\$150,000
<b>Social Security Taxable wage base</b>	<b>\$132,900</b>	<b>\$128,700</b>

The IRS announced the 2019 maximum contribution limits for Flexible spending Accounts (FSA), Commuter Reimbursement Accounts (CRA), and Qualified Small Health Reimbursement Arrangements (QSEHRA).

For your convenience, we’ve included a table below comparing the current (2018) contribution limits to the adjusted contribution limits for 2019.

<u>PLAN TYPE</u>	<u>2018</u>	<u>2019</u>
Flexible Spending Account (FSA)	\$2,650	\$2,700
Health Savings Account (HSA)	\$3,450 single/ \$6,900 family	\$3,500 single/ \$7,000 family
Commuter Reimbursement Account (CRA/Parking, Transit)	\$260/month	\$265/month
Qualified Small Employer Health Reimbursement Arrangements (QSEHRA)	\$5,050 single/ \$10,250 family	\$5,150 single/ \$10,450 family

New Jersey Taxes

New Jersey ranked 50th in the US for a state that is bad for business due to its highest property tax in the country, the second highest corporate tax rate, levies on inheritance tax and maintains some of the worst individual income taxes rates.

Some of the more noteworthy items that may affect you are as follows:

New Jersey Tax Amnesty Program

NJ passed legislation establishing a 90 day (ends 1/15/19) tax amnesty program. The program applies to state tax liabilities for tax returns due on or after 2/1/09 and prior to 9/1/17. Under the program if a taxpayer pays the full amount of tax due the State will waive ½ of the interest due and eliminate the tax penalties.

Minimum Wage Increase

Effective January 1, 2019 the minimum wage will be increased to \$8.85 from \$8.60.

### Property Tax Deduction

Qualified homeowners and tenants are eligible for a deduction for property taxes they paid for the calendar year on their New Jersey principal residence. The new law increases the maximum Property Tax deduction from \$10,000 to \$15,000.

### Temporary Corporation Business Tax Increase

Corporation Business Tax taxpayers, except public utilities, that have allocated New Jersey net income in excess of \$1 million will be subject to a "surtax". Beginning January 1, 2018 through December 31, 2019, the surtax, is imposed at a rate of 2.5 percent. For a total CBT tax rate of 11.5%. For the periods beginning January 1, 2020 through December 31, 2021, the surtax rate is 1.5 percent for a total CBT tax rate of 10.5%.

### NJ Paid Sick Leave Act

On 10/29/18 the NJ Paid Sick Leave Act became effective and many employees who in the past were not able to take sick time will now be eligible to accrue up to 40 hours of sick time in a 12 month period. The law affects all business sizes and employees will earn 1 hour for every 30 hours worked. Employees must post notification of the law and provide written notice to employees along with documenting and retaining records of hours worked.

### Administration

As we previously reported to you we have closed our Lakewood office as of 8/1/18 and consolidated all of our operations and personnel to our East Brunswick location at 11 Brunswick Woods Drive. However, we are sensitive to our many clients that have previously met me in our Lakewood office. In that regard we have arranged starting **2/1/19** to rent space at **525 Rt. 70W, Suite A-3, Lakewood** to accommodate anyone that wants to meet in person. When you call for an appointment just let us know which office you want to visit.

We also encourage all of our clients to take advantage of our secure portal to transmit tax information and to have access to your data and tax returns. Our staff can answer any questions you may have regarding this service. Also you can continue to mail your information to us at the East Brunswick location.

If you would like to receive the 2018 tax organizer to assist you in gathering your tax information it is now available by using our secure portal. Our staff can assist you in accessing the organizer.

We want to wish everyone a very healthy, happy and prosperous holiday season. We also again thank all of you for the many referrals that you have sent us and we appreciate your trust in our firm.

Robert Nahum

