Coleman&Associates
Fully Integrated Tax, Accounting & Financial Services

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- **January 15:** 4th Quarter Estimated Payments Due

The New Qualified Business Income Deduction

A new deduction is available to businesses with qualified business income (QBI). While that's great news, new deductions (especially ones with lots of rules) can bring anxiety and confusion. Never fear! Ensuring you receive a maximum deduction will come down to providing the proper information. Here is some knowledge to help you cut through the confusion:

What is the QBI deduction?

In short, it's a 20 percent deduction against ordinary income, taken on your personal tax return, that reduces qualified business income earned for most pass-through businesses (sole proprietorships, partnerships and S-corporations). It's not an itemized deduction, so you can take it in addition to the standard deduction. To qualify without limitations, your total taxable income needs to be below $157,500 ($315,000 for married couples) for 2018. If your income exceeds the threshold, it gets complicated.

What you need to know:

- **If your total taxable income is above the income threshold, your deduction may be limited or nullified.** If your income is below the threshold, the calculation is pretty straightforward. If not, additional phaseouts, limitations and calculations come into play. The first limitation to consider is whether or not your business is qualified. Certain specified service trades or businesses (SSTBs) are excluded from the deduction altogether if taxable income is over the threshold. If your business is not an SSTB, other calculations related to W-2 wages and basis in qualified business property may be required.
- **Schedule K-1s for S-corporations and partnerships have new codes.** Businesses with partners and shareholders are now required to report information related to the QBI

deduction on each Schedule K-1 they issue. Based on the draft versions of the forms, the new codes will be in Box 17 for S-corporations (V through Z) and Box 20 for partnerships (Z through AD). If you receive a Schedule K-1, check to see if the new codes have values associated with them. If not, contact the issuing business to correct the mistake. Schedule K-1s without the required data will delay your tax-return filing.

- **Certain data needs to be collected.** For the most part, the data required to calculate your deduction will be included on the normal forms needed to file your taxes. Here is list of common documentation to watch for that may be required to calculate your QBI deduction:
  - Business financial statements
  - Forms W-2 and W-3 issued by your business
  - Purchase information related to business assets
  - Schedule K-1s
  - Forms 1099-B with cost/basis information
- **The sooner you close your books, the better.** The new deduction means more work. Knowing your final business net income as soon as possible gives you extra time to work through the additional necessary calculations. If your business is required to issue Schedule K-1s, even more time may be required.
- **More guidance is expected from the IRS.** In August, the IRS published guidance to clear up some of the confusion regarding the deduction, but it didn't cover everything. The American Institute of CPAs (AICPA) responded with 11 specific items that still need to be addressed.

With proper planning and preparation, you can rest easy knowing that obtaining your shiny, new QBI deduction is in good hands.

Medicare Part D Open Enrollment

Open enrollment period for Medicare begins runs between November 1, 2018 and December 15, 2018. If you have Medicare Part A and/or Part B you can get the optional Part D prescription coverage regardless of your health or income. A word of caution - Medicare Part D is optional only if you have other “creditable prescription drug coverage”. Creditable prescription drug coverage is any coverage that is expected to pay at least as much as Medicare’s standard prescription drug coverage. This coverage is usually obtained either through a current or former employer, a union, the Veterans Administration or through a separate health insurance policy.

Failure to sign up for Medicare Part D when you first become eligible, or within 63 days of terminating other coverage, will result in a lifetime penalty. This penalty is added to your premium every month for as long as you carry Medicare so it can become quite costly. The penalty is calculated using the National base beneficiary premium x 1% for each month without coverage. The base premium is $33.19 in 2019.

For example, if you become eligible for Medicare and your initial enrollment period ended on June 30, 2016 your penalty would be calculated as follows:

June 2016 – December 2018 equals 30 months x 1% = 30%

30% x $33.19 (base premium) = $9.96 (rounded up to $10.00) penalty each month.

This means you will be paying an additional $120 in 2019 and at least that amount every year going forward as the penalty is recalculated annually. Over a period of 10 years, that amounts to an additional $1,200 in penalties.

6 Last-Second Money-Saving Tax Moves

As 2018 winds down, there is still time to reduce your potential tax obligation. Here are some ideas to make your 2018 tax return less of a burden on your wallet:

1. **Accelerate expenses.** Individual taxpayers are on the cash basis for income tax purposes. This means your income is taxable when you receive it and expenses count when you pay them. Depending on your situation, shifting deductions between years can make a big difference on your tax bill. With this knowledge, making additional deductible payments prior to the end of the year may be a good idea. Examples include property tax payments, mortgage interest payments and charitable donations.
2. **Make effective use of capital losses.** Up to $3,000 in capital losses can be claimed each year to reduce your ordinary income. This loss limitation is calculated after netting all your capital losses against any capital gains. When you have more losses than gains, up to $3,000 can be used to reduce your other income. With careful planning you can take advantage of this loss amount each year.
3. **Fund tax-deferred retirement accounts.** An easy way to reduce your taxable income is to fully fund retirement accounts that have tax-deferred status. The most common accounts are 401(k)s, 403(b)s and various IRAs (traditional, SEP and SIMPLE).
4. **Take advantage of the annual gift exclusion.** For 2018, you may provide gifts up to $15,000 to as many individuals as you wish without tax consequences. This could include gifts of cash or property, including investments. Taking advantage of the annual exclusion is a great way to lower your taxable estate.
5. **Give to charities.** Consider making end-of-year donations to eligible charities. Donations of property in good or better condition and your charitable mileage are also deductible. Receiving proper documentation that acknowledges your contributions is important to ensure you obtain the full deduction. Have a plan by knowing your total deductions for the year to help you decide how much to donate. Pulling some donations planned for 2019 into 2018 may be a good strategy.
6. **Donate appreciated stock.** By donating appreciated stock owned one year or longer to a favorite charity, you receive two benefits. First, you will not have to claim the capital gain on the appreciation of your investment. Second, you can claim the higher market value of the stock as your contribution amount. The procedure you need to follow to qualify your donation of appreciated stock is fairly strict. Ask for help from your broker and the charitable organization to ensure it is done correctly.

This is a short list of some of the ideas you can use to lower your tax obligation in 2018. If interested, please call for help with reviewing your situation.

Retirement Contributions Get a Boost in 2019

For the first time since 2013, the IRS is raising the contributions limits for IRAs. The maximum contribution for 401(k) accounts and IRAs is increasing by $500 for 2019. If you have not already done so, now is the time to plan for contributions into your retirement accounts in 2019. Check out the tables below for the new contribution limits and Social Security increases:

Retirement Contribution Limits

Retirement Program	2019	2018	Change	Age 50 or older catch up
401(k), 403(b), 457 plans	$19,000	$18,500	+$500	add: $6,000
IRA: Roth	$6,000	$5,500	+$500	add: $1,000
IRA: SIMPLE	$13,000	$12,500	+$500	add: $3,000
IRA: Traditional	$6,000	$5,500	+$500	add: $1,000

Social Security

Item	2019	2018	Change	
Wages subject to Social Security	$132,900	$128,400	+$4,500	Annual Social Security employee tax: $8,239.80
Average estimated monthly retirement benefit	$1,461	$1,422	+$39	

Don't forget to account for any matching programs offered by your employer as you determine your various funding levels for next year.

Unclaimed Property

According to Credit Karma, over $40 BILLION of unclaimed property is currently being held by state governments. That's a staggering amount of money - enough to buy half of the National Football League franchises. Not included in that figure is property sitting with federal agencies and other organizations. So what exactly is unclaimed property and how do you find out if you have any? Here is what you need to know:

Specific types of unclaimed property include back wages, life insurance, pensions, tax refunds, bank accounts, money orders, gift certificates and security deposits. For example, many states require banks to turn over funds from checking accounts that have been dormant for over three years.

Tips for managing unclaimed property

1. **Search state and federal databases.** Unfortunately, there is no master database to search for unclaimed property. There is a website called Missing Money endorsed by the National Association of Unclaimed Property Administrators (NAUPA) that can search most states at once, but each state maintains their own database. Be sure to check all states where you have been a resident. www.icash.illinoistreasurer.gov/ is the Illinois unclaimed property website.
2. **Don't pay a company to search for you.** Companies are willing to search for unclaimed property for you, but will charge a fee. All unclaimed property data is public information, so anything a search company can find, you can find as well. In most cases, it's best to conduct the search yourself.
3. **Watch out for scams.** Be wary of any notices alerting you to unclaimed property that can be yours for a fee. Often times these scams will ask you to send them money with the promise of more money in return. The Federal Trade Commission (FTC) has some tips to help you spot an imposter.
4. **Take steps to avoid having your property become unclaimed.** The best way to keep your property is to prevent it from becoming unclaimed in the first place. Some ways to do this is to actively manage bank accounts, notify companies when you move, close old accounts, and read all of your mail so you don't miss a claim notice.
5. **File your tax returns.** Consider filing a tax return even if your income is below the requirements to file. Unclaimed refunds with the IRS usually happen when a tax return isn't filed with one of two situations: your employer withheld income tax from your wages or you qualify for a refundable portion of the Earned Income Tax Credit. The only way to know for sure is by filing a tax return for the year in question. If you have past tax returns to file, don't wait — overdue tax returns need to be filed within three years.

Any unclaimed property due to you is rightfully yours and should already be in your pocket. Perform regular searches to ensure that your funds aren't sitting in a government account.

As always, should you have any questions or concerns regarding your situation please feel free to call