Coleman & Associates
Fully Integrated Tax, Accounting & Financial Services

Monthly Newsletter

June 2018

Tax Filing Reminder

June 15 – The second installment of 2018 individual estimated tax is due.

It's tax-planning time

Now is the ideal time to schedule a tax-planning session. Your tax return outcome is still fresh, and it's early enough in the year to make corrective action to take advantage of the numerous new tax law changes taking place in 2018. Here's a brief overview of some of the new tax issues that you need to plan for now.

1. Income

Tax rates for both individuals and small businesses have changed substantially. Income tax deductions have also changed drastically, including a near doubling of the standard deduction and the elimination of most personal exemptions and miscellaneous itemized deductions.

- *You need to review your income tax withholding schedule and see where you fall in the new income tax bracket structure. Small adjustments here could save you hundreds.* ***See below for "Step-by-step instructions for using the IRS Withholding Calculator" to do a quick checkup.***

2. Bunching

Because of the changes to the deductions structure, using itemized deductions may entail bunching two or even three years of expenses into one tax year. Things like donations to charity and medical expenses that you may have spread across several years are now better bunched into a single year to maximize your tax savings.

- *If you typically take care of medical expenses or charitable donations at a regular time every year, stop until you have a new tax-efficient plan. If you wish to consider a bunching approach to itemizing, you'll want to make that decision as early in the year as possible.*

3. SALT (State and local taxes)

There's now a $10,000 combined total cap on deductions of state and local income, sales and property taxes, which is going to impact a lot of people, especially in high-tax states. This may be a big factor to account for if you've relied on this deduction in the past.

- *Get an analysis done to see how much larger your tax bill is going to be because of the cap on SALT taxes. There may not be much you can do about it other than changing where you live and own property, but you'll need to have a clear picture of how it will impact your tax return in 2018.*

4. Mortgage interest changes

There are several new rules changing how mortgage interest is deducted. You can now no longer deduct the interest cost on mortgage indebtedness greater than $750,000. And you can no longer deduct interest on mortgage indebtedness that wasn't spent directly on buying, building or substantially improving your home.

- *If you have used a home equity loan interest deduction, you'll need to review how this will impact your itemized deductions.*

These are just a few examples of things that you'll need to review in the wake of the largest tax law changes in more than 30 years. Take some time this summer to make sure you have a plan in place.

Step-by-step instructions for using the IRS Withholding Calculator

As mentioned above and in the March Newsletter, the IRS encourages everyone to use the Withholding Calculator to perform a quick "paycheck checkup." This is even more important this year because of recent tax law changes. Results from the calculator will include a recommendation of whether or not you should consider submitting a new Form W-4, Employee's Withholding Allowance Certificate, to your employer. Before beginning, you should have a copy of your most recent pay stub and tax return.

Here are step-by-step instructions for using the calculator:

1. Go to the main Withholding Calculator page on the IRS website at www.irs.gov/individuals/irs-withholding-calculator. Carefully read all information and click the blue Withholding Calculator button.

2. Use the buttons at the bottom of each page to navigate through the calculator. The buttons allow you to continue inputting your information, reset the information on that page, or start over from the beginning.

3. Input general tax situation information, including:

- Filing status.
- Whether anyone can claim you as a dependent.
- Total number of jobs held during the year.
- Contributions to a tax-deferred retirement, cafeteria or other pre-tax plan.
- Scholarships or fellowship grants received that are included in gross income.
- Number of dependents.

4. Input information about credits, including:

- Child and dependent care credit.
- Child tax credit.
- Earned income tax credit.

5. Enter the total estimated taxable income expected during the year. Amounts you will enter include wages, bonuses, military retirement, taxable pensions, and unemployment compensation. You should enter a "0" on lines asking for amounts that don’t apply to you.

6. Enter an estimate of adjustments to income, including deductible IRA contributions and education loan interest.

7. Indicate standard deduction or itemized deductions. If you plan to itemize, here you will enter estimates of these deductions.

8. Print out the summary of results. The calculator will provide a summary of your information. You can use the results to determine if you need to complete a new Form W-4, which you give to your employer.

The new small business family medical leave credit

There's a new business tax credit that partially reimburses employers for providing paid family and medical leave for select employees. But small businesses should be informed before they try to use this new Family and Medical Leave Act (FMLA) tax break.

Basics of the new credit

Employers who provide at least two weeks of paid family and medical leave to employees who earn $72,000 a year or less can claim the FMLA credit to offset some of the cost of that paid leave. Some details:

- The credit ranges between 12.5 percent to 25 percent of the cost of the leave, depending on whether it pays 50 percent salary to a full salary.
- At least 50 percent of salary must be paid during the leave for employers to claim the credit.
- Employees must have worked for at least a year.
- Up to 12 weeks of leave are eligible for the credit.
- The $72,000 salary cap in 2018 will rise with inflation every year.

This credit comes as the result of a law requiring companies with 50 or more employees to provide up to 12 weeks of leave every year. The leave is intended to give employees time to address serious health issues, adapt to new additions to their families from births or adoptions, and to handle family military deployments.

However, small businesses with less than 50 employees aren't covered by the FMLA, though they can voluntarily adopt a leave policy as an employee benefit and claim the new credit.

Considerations for small business owners

If you're a small business owner and you're considering providing a leave benefit and claiming the FMLA credit, there are several items to think about:

- **The credit currently expires after the 2019 tax year**. Congress' intention is to test adoption of the credit and later make it permanent if it's popular with employers.

- **It requires administrative setup**. You'll have to draft a leave policy separate from your policies for regular vacation, personal, medical and sick time off.

- **It may create an employee expectation**. If you haven't provided a paid leave benefit before but assess it's worth it due to the credit, it may be a letdown if the credit expires and you no longer offer the benefit to your employees.

Given the uncertain nature of the life of this new credit, if you plan to offer this benefit to your employees, please be prepared to know what you will do if the credit is not extended past next year.

Check for unclaimed property

The Illinois State Treasurer has over 2.9 billion dollars in unclaimed funds for Illinoisans. Illinois, and many other states, hold these lost funds until they are claimed by either the original owner or their heirs. Property is returned at no cost with the proper identification.

Common types of unclaimed property include: checking and savings accounts, uncashed wage and payroll checks, uncashed stock dividends and stock certificates, insurance payments, utility deposits, refund checks, and even uncashed death benefit checks.

For more information, please visit www.icash.illinoistreasurer.gov/ (and similar sites in other states).