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HERMAN & COMPANY

Certified Public Accountants and Consultants

2018 YEAR END TAX PLANNING

Do You Want to Know the Best Ways to Save on Your 2018 Taxes? Read Our Annual Tax Planning Guide to Find Out.

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2018 Annual Year-End Tax Planning

Take advantage of tax savings opportunities!

Fall, 2018

To Our Clients and Friends,

While November and December typically bring thoughts of the holiday season with great food, parties, gifts, and cozy evenings, it is also the time for you to start your year-end tax planning. Planning for your 2018 taxes is among the best gifts you can give to yourself!

Since last year, Congress implemented the Tax Cuts and Jobs Act of 2017 (TCJA). This has radically changed some of the tax rates and deductions allowable for 2018 and beyond which we have summarized for your convenience in the pages that follow. While most of the law has been finalized, there are certain areas which still require IRS guidance. As a firm, we will update our clients as these changes come to fruition. Our goal is always to minimize your taxes, reduce your compliance burden, and the related cost incurred, while meeting your filing obligations.

Under the new tax law, there are planning opportunities available to you. Being aware of these opportunities is the first step in reducing your tax burden for April 15, 2019. Ignoring your taxes until next year is not in your best interest. As the saying goes, "If you fail to plan, plan to fail." We want our clients to succeed in paying the least amount of taxes possible. It is the reason why we write this letter to you. Informing you of ways to save money is our way of helping you to be proactive with your tax situation by taking advantage of planning techniques.

I'd like to suggest you have us (or your preparer if you are not a client of our office) prepare an estimate now of your current year's tax liability. We can then review strategies to see if there are ways to keep extra money in your pocket for the holidays and beyond. Once an estimate of your 2018 tax liability is prepared, we can speak about cash flow, health care, future college tuition, retirement, investment, estate planning, and many more tax matters. We advise you to reflect on any personal changes that might have occurred during the year and the impact these changes may have on wills, powers of attorney and health care proxies.

We're going to provide you with lots of food for thought in this letter, so sit back, relax and consider which strategies can help you reduce your taxes.

At this point, you likely have a fairly complete picture of your 2018 income from sources such as salary, business income, retirement plan distributions, and dividends. The total of those, combined with other predictable income items, provides a good starting point for tax planning.

The following highlights frequently asked questions, as well as providing you with recent updates.

SUMMARY OF CHANGES RESULTING FROM THE TAX CUTS AND JOBS ACT OF 2017 ("TCJA")

For Individuals

- New individual income tax brackets for 2018 ranging from 10% to 37%
- The standard deduction has increased
- Personal exemptions for taxpayer, spouse and dependents are no longer available
- Additional child credits are available
- Some deductions like moving expenses and alimony have been eliminated.
- The itemized deductions make up has also changed. Highlights are discussed in the sections that follow.
- The alternative minimum tax (AMT) income phaseout threshold has been increased.
- "Kiddie Tax" related to unearned income was usually taxed at the parents' marginal tax rates. Under the TCJA, the child's unearned income could be taxed at the highest marginal tax rate of 37% which could cause the children's unearned income to be taxed at a higher rate than their parents.
- 529 savings plans will now allow for primary and secondary education.
- The individual mandate for health insurance and the penalty associated with it have been eliminated for periods beginning after December 31, 2018.

For Businesses

- There is a new corporate tax rate for 2018. Instead of the graduated rates of 15%, 25%, 34% and 35%, the IRS has instituted a flat 21% tax on all business taxable income including personal service corporations.
- The corporate AMT has been repealed.
- A reduction in the corporate dividend deduction has been implemented.
- A new deduction for pass-through businesses (sole-proprietorships, partnerships, S-Corporations and LLC's) which generally equals 20% of qualified business income (QBI). This is subject to restrictions and is not used in computing the owners AGI; it reduces taxable income, in effect it is treated like an allowable itemized deduction.
- Limitations on Interest deductions for large businesses.
- New Bonus Depreciation and Section 179 Depreciation limits.
- Limits on meals and entertainment deductions. Only business meals will now be allowed.
- The Domestic Production Activities Deduction has been eliminated.
- Limits on NOL deductions for 2018.
- R&D expenses must be capitalized and amortized over 5 years (15 years if the R&D is conducted outside the US) instead of being deducted currently. This takes effect in 2022.

INDIVIDUALS:

Affordable Care Act:

The Affordable Care Act is still with us. For 2018, there is still a penalty if you do not have health care insurance, calculated on the greater of a flat fee or a percentage of income. The maximum penalty for 2018 is $13,056. Please note that under current law, the penalty will be eliminated for tax year 2019.

Estimated tax payments versus withholding from wages:

Have you underpaid your taxes for 2018? Don't forget that taxes are due throughout the year. Check your withholding and estimated tax payments now while you have time to fix a possible problem. This is especially important as many taxpayers had less taxes withheld based on the new TCJA tax withholding charts distributed by the IRS earlier this year.

TAX TIP: If you're in danger of an underpayment penalty, try to make up the shortfall through increased withholding on your salary or bonuses. A bigger estimated tax payment can still leave you exposed to penalties for previous quarters, while withholding is considered to have been paid evenly throughout the year.

You need not pay by December 31st every penny of the tax you expect to owe. If you prepay 90% of this year's tax bill, you're off the hook for the penalty. You can also escape the penalty in most cases, by prepaying 100% of last year's tax liability. Note however if your 2017 adjusted gross income topped $150,000, you'll have to prepay 110% of last year's tax liability to avoid a penalty. Taking these steps to boost your withholding at year-end will shield you from an underpayment penalty on your 2018 return, no matter how much you owe come April 15th. Penalties are a needless waste of money and can amount to hundreds or thousands of dollars.

Threshold for Deducting Medical Expenses

For 2018, medical and dental expenses that exceed 7.5% of your adjusted gross income (AGI) are deductible (reduced from 10% last year). Eligible expenses may include health insurance premiums, long-term care insurance premiums (subject to limits based on age), medical and dental expenses after insurance reimbursement, prescription drugs and mileage at 18 cents per mile. It should be noted that in the past, for taxpayers 65 and older, the threshold was 7.5%. Beginning in 2019, all taxpayers may deduct only the amount of total unreimbursed allowable medical expenses that exceed 10% regardless of age.

Changes in Personal Exemptions and Itemized Deductions for Taxpayers

This is a biggie affecting lots of taxpayers. The personal exemptions and itemized deductions for taxpayers and their dependents ($4,050 in 2018) have been eliminated under the TCJA. The standard deduction for taxpayers married filing jointly has increased to $24,000 from $12,700. For single or married filing separately, it is now $12,000 up from $6,350 and head of household goes to $18,000 from $9,350.

The makeup of the itemized deductions has also been changed:

- Deduction for all state and local taxes is now capped at $10,000 in total for both state/city income taxes and real estate taxes.
- Mortgage interest deductibility covers only the first $750,000 of a home mortgage if the debt occurred after December 15, 2017; there is no longer a deduction for home equity loans unless its original purpose was to substantially improve the home, but the total of the two cannot exceed $750,000 in total.
- Deductions for unreimbursed employee business expenses, tax preparation and portfolio management fees have been eliminated.

- The limit for contributions to public charities has been raised from 50% to 60% of adjusted gross income.

TAX CHANGE: For a family of four, if you did not itemize in 2017, your deduction to adjusted gross income (the combined standard deduction and exemptions) was $28,900. In 2018, this same adjustment is now only $24,000. It is hoped that the reduced tax rates and the new child credits (refundable and non-refundable) for each child will compensate for this reduction. Because of the other changes to allowable itemized deductions, it important to review all your deductions to make sure you receive all the allowable deductions to which you are entitled under the new tax law.

Tax Scams

Note that the IRS will never:

- Call or email you.
- Call to demand immediate payment using a specific payment method such as a prepaid debit card, gift card or wire transfer. **The IRS will mail you a bill if you owe any taxes.**
- Threaten to immediately bring in local police or other law-enforcement groups to have you arrested for not paying.
- Demand that you pay taxes without giving you the opportunity to question or appeal the amount they say you owe.
- Ask for credit or debit card numbers over the phone.

Protect yourself from Identity Theft

In the past few years tax-related identity theft has become rampant. Tax-related identity theft occurs when someone uses your personal information including your social security number to file a tax return and claim a refund.

Most important do not ever respond to any phone call, e-mail, text message, social media channel, or any type of electronic communication from anyone claiming to be an IRS agent or officer. The IRS **NEVER** initiates contact with taxpayers by telephone.

Contact us before you share any information with any individual claiming to be from the IRS or any other tax authorities.

Contact us if you believe you have become a victim of identity theft.

Planning Ideas for Individuals

Net Investment Income Tax (NIIT) and Additional Medicare Tax

For a few years now, individual taxpayers with incomes over $200,000 and married taxpayers with incomes over $250,000 get hit with two additional taxes. These taxes, the 0.9% Medicare surtax on earned income and the 3.9% tax on net investment income remain a permanent part of the tax laws. While it was hoped these taxes would be eliminated, the TCJA did not eliminate them.

Net Investment Income Tax:

Net investment income includes interest, dividend, most rental income and net gain attributable to the disposition of property other than a property held in a trade or business (i.e., capital gains). Some ways to mitigate impact of NIIT include:

- Invest in tax-exempt state and municipal bonds.
- Consider an installment sale if selling an appreciated asset if the gain from the sale will exceed the threshold amount for being subject to NIIT.
- NIIT applies to income from passive activities. That is one in which you do not materially participate. Review your participation and involvement. If you participate "enough" income may not be subject to NIIT. Be sure to document the hours spent with a calendar and appointment books, e-mails and/or summarized narratives.
- Review your investment statements. If you have realized capital gains or capital gains distributions, take capital losses now to offset those capital gains. See more on this below "Capital gains and losses" and "Mutual Fund Capital Gains Distributions".
- Don't lose deductible losses. Watch out for the "wash sale" rules. See below "Watch out for the Wash Sale Rule" for more on this.
- If you plan to donate to a charity, consider donating appreciated property. The gain on appreciation will not factor in your taxable income, and therefore not be subject to NIIT, while enabling you to take a charitable deduction equal to the fair market value of the property donated.

Additional Medicare Tax:

This tax is imposed on wages and self-employment income. Your employer withholds this from your wages if your wages exceeds $200,000. If you and your spouse's combined wages and/or self-employment income is more than $250,000, the withheld taxes may not cover your entire 0.9% liability and you may be hit with additional taxes and possibly penalties at the end of the tax year. Consider income deferral strategies. For example, request your bonus be paid next year or bill your clients in January, assuming you anticipate lower income next year. See more on income/deduction deferral and acceleration strategies later in this newsletter.

Education

The cost of education is always increasing and planning for a 4-year college education is important for many parents. Here are some of the strategies that parents can employ.

Contribute to a QTP:

Contribute to a section 529 plan, also called Qualified Tuition Program ("QTP"), a saving plan from which tuition can be paid. Contributions up to $10,000 for a married couple are generally deductible for state tax purposes if the plan is administered by your home state, and distributions are tax-free, if distributions are used for qualified primary and secondary education costs. Income earned in such accounts will not be taxed. There are no income limitations for these plans. There are also 529 prepaid tuition plans, which guarantees tuition costs will not be higher when the beneficiary attends the school. A major caveat is that the beneficiary may be limited to a specific school.

TAX CHANGE FOR 2018: If your child(ren) attend a private or religious elementary or secondary school, up to $10,000 per year can be paid towards the cost of that education from the 529 plan.

American Opportunity Tax Credit:

If you have kids in college listen up. The American Opportunity Tax Credit can be claimed for qualified undergraduate education expenses (including books and other required course materials) paid for an eligible student.

The credit is equal to $2,500 per student each year, and is possible for a taxpayer who pays $4,000 or more in qualifying expenses. The credit is available to married taxpayers who have modified adjusted gross income of less than $180,000 ($90,000 if single). Above those levels, sorry, it's phased out.

The Lifetime Learning Credit
The lifetime Learning Credit of up to $2,000 (20% of tuition of up to $10,000) applies to graduate classes as well as undergraduate. It is also subject to phase out at higher income levels.
If you are taking college courses to enhance your skills at work, consider claiming the Lifetime Learning Credit.

Coverdell Education Savings Account
There is a $2,000 contribution limit per year, per beneficiary, subject to income phase outs. Contributions are not tax deductible, but the earnings are tax free if used for qualified education expenses at qualified elementary and secondary schools. Honestly, we have never seen anyone set up such an account. The limit on contributions makes it unattractive.

Tax Tip:

Let Uncle Sam Pay Part of Your Kid's College Tuition Bill: Don't pay your children's college tuition bill by selling appreciated securities you own. Instead, give your children the shares of appreciated stock or mutual fund and have them sell the shares to pay for school. Capital gains are out of your income tax bill and in theirs. Their capital gains tax rate is likely lower than yours. Their rate may even be zero! However, it is important to review the TCJA's impact of the Kiddie Tax before employing this strategy.

Take Advantage of Wealthy Grandparents
I didn't mean that quite the way it sounded. This is one of my favorites and makes so much sense. If Grandma or Grandpa have sizeable estates and are facing a large estate tax bill, admittedly less likely under TCJA, consider asking them to pay your child's college tuition! Payments made directly to the school are not counted towards the $15,000 annual gift limit. This is also an effective way to reduce Grandma and Grandpa's estate taxes!

Don't forget deduction for interest paid on student loans:
The new tax law did not change treatment of student loan interest. Interest you pay on qualified student loans up to $2,500 per year is deductible in the year paid. However, it begins to phase out with modified adjusted gross income of $130,000 for married taxpayers and $65,000 for single individuals. They are talking about doing away with this deduction in the proposed new tax law.

Borrowing for Tuition
There are various methods to borrow money to finance education costs. These methods include: borrowing from pension plans, life insurance policies, related-parties, as well as federal education loans. Under the old tax law, the most preferable type of borrowing was a home equity loan, since up to $100,000 of interest attributable to home indebtedness was allowable as an itemized deduction. Interest on a home equity loan is now deductible only if the proceeds of the loan are used to buy, build or improve your home.

Charitable Donations

Don't forget your tax situation when "giving." How you give, and what you give can have an impact on your personal tax bill.

Donate appreciated securities:
Consider using appreciated securities to make your charitable contributions. You can deduct the fair market value of the securities and avoid paying the capital gains tax you would incur if you sold the securities.

Securities with Losses:
Sell securities that will generate losses and use the cash to make donations. This strategy enables you to offset capital gains with capital losses, thus reducing NIIT impact and still claim a charitable deduction.

Be able to substantiate your Donations:
Remember that to take deductions on your tax return, you must be able to substantiate your donations with proper documentation. If the property is valued at more than $5,000, a "qualified written appraisal" is mandatory. You must obtain receipts for contributions over $250. Your cancelled check alone will not satisfy the IRS. Instead of putting cash in collections basket at your church, consider putting a check in! If you want to make a donation but won't have the money until next year, consider charging your gift on a credit card before the end of the year. The gift will be deductible on your 2018 return!

Donation of non-cash property:
If you claim a charitable deduction of more than $500 in non-cash property, like clothing, furniture, appliances, I strongly suggest that you take pictures of what you are donating to help support the donation and its value. Substantial donations of your in-kind property are an easy target for disallowance or reduction by the IRS. Remember that you can't deduct contributions of clothing or household items unless the property is in at least "good condition". For in-kind donations you must attach Form 8283 to your tax return. The value of the items you donate are not based on what you originally paid for them, but should be based on their current value, i.e. on what a buyer would pay in a consignment or thrift shop.

Car donation:
If you are claiming a deduction of $250 or more for a car donation, you will need a written acknowledgement (Form 1098-C) from the charity that includes a description of the car. Generally, you can deduct only an amount equal to what the charity received for selling the car.

Some things you cannot deduct:
Remember, you cannot deduct donations to individuals, social clubs, political groups or candidates or foreign organizations, or GoFundMe donations (unless it is a 501(c)(3) charitable organization). You also cannot deduct the value of your time donated to a charity. However, as a volunteer you can deduct travel expenses incurred on behalf of charitable work. In addition, 14 cents per mile for using your personal vehicle for charitable work is deductible.

Consider Using Donor Advised Fund for Making Donations:
For those high-income taxpayers with generous donative intentions, transferring assets to your own donor advised fund can allow you to receive an immediate charitable income tax deduction (at the maximum amount allowed for gifts to public charities) while providing time to decide who the recipients should be. If you would like to create a donor advised fund in 2018, you can establish one as late as December 31. However, I suggest that you not wait until the last minute, especially if you are planning on funding the account with anything other than cash.

Planning for Disability

Achieving a Better Life Experience ("ABLE") accounts are available for people with disabilities. An individual can contribute up to $15,000 per year for a designated beneficiary to pay for his/her qualified disability expenses. While the contribution to an ABLE account is not tax deductible, the distributions to the designated beneficiary are tax-free if used to pay qualified disability expenses. The ABLE account is generally not counted when determining the designated beneficiary's eligibility for many federal means-tested programs, or in determining the amount of any benefits or assistance provided under those programs. Special rules may apply for SSI purposes. An ABLE account can be used as part of a gift planning strategy for a disabled beneficiary whose government provided assistance may be affected by an outright gift.

Planning for Retirement

Maximize your contributions to your employer's retirement plan:
If your employer has a retirement plan, consider maximizing your contribution to the plan. Typically, contributions to employer provided retirement plans are tax-free, and income earned in the plan is tax deferred. Your employer may provide matching contributions, which is not taxable to you until withdrawn.

If eligible, contribute to a Traditional IRA:
If you are not covered by an employer's retirement plan and have wages or self-employment income, you are eligible to make a tax-deductible contribution of up to $5,500 ($6,500 if you are at least age 50) per year to an Individual Retirement Account (IRA) up until the year that you turn 70½. This money will earn income tax-free and is taxable only when you withdraw funds from the account. If you withdraw the money before age 59½ there may be a penalty tax of 10%. You must begin withdrawing from the account based on a formula beginning at age 70½. You (and/or your spouse) must have wages or self-employment income at least equal to the amount you contribute. Payment can be made to the IRA anytime up until April 15, 2019 to be deductible on your 2018 return.

If you are covered by a retirement plan at work, you can take a full IRA deduction in 2018 if your modified adjusted gross income is less than $62,000 if you are single or $99,000 if you are married and filing jointly. Above these income levels, the ability to deduct an IRA contribution is reduced and eventually fully phased out.

Retirement plan contribution limits for 2018 are as follows:

	401(k) Plans	IRA's	Keogh's/SEP's	SIMPLE Plans
Taxpayers < 50	$18,500	$5,500	$55,000	$12,500
Taxpayers > 49	$24,500	$6,500	$55,000	$15,500

Consider Roth IRA contributions:
A Roth IRA is one of the few items in the tax law that is too good to be true. Contributions to Roth IRAs are non-deductible when made, but all principal and earnings will be distributed tax free, if distributions are made more than five years after the first contribution and after the individual has reached the age of 59½. Therefore, Roth IRAs may be preferable to traditional IRAs. An individual with earned income may make a nondeductible contribution to a Roth IRA of up to $5,500 plus a $1,000 "catch-up" contribution if at least 50 years of age in 2018 (reduced by any amount contributed

to a regular IRA). Unfortunately, married taxpayers with adjusted gross incomes ("AGI") over $196,000 (singles over $133,000) can't contribute to a Roth. Under those amounts you can make at least a partial contribution.

Consider the "Back Door" Roth IRA

As noted above, high incomers cannot contribute to a Roth IRA . . . or can they? There is a loophole in the law that you may want to consider taking advantage of. It's perfectly legal. If your income is above the threshold for contributing directly to as Roth IRA, first make a contribution to a non-deductible traditional IRA. Anyone can do that up to $5,500 a year or $6,500 if over age 49. After some reasonable period of time (discuss this with your financial advisor), convert these contributions to a Roth IRA. Any income earned prior to the conversion will taxable. Therefore it is advisable to make the conversion sooner rather than later.

Distributions from IRA's:

Whenever possible, withdraw money you need from taxable savings and investments accounts. Traditional IRA accounts should be left to grow tax-free as long as possible. Once you reach the age of 70½, you MUST begin taking distributions and paying income tax on the monies withdrawn or be subject to a penalty of 50% of the amount you should have withdrawn. Distributions taken before age 59½ may be subject to a 10% penalty in addition to the tax due. Taxpayers receiving retirement plan distributions should note that while such distributions are not subject to the 3.8% surtax, they could raise your adjusted gross income over the $200,000 threshold, making all other unearned income fair game for the tax. One possible solution would be to convert your IRA to a Roth IRA. You will recognize income now, but future Roth distributions will be tax free.

If you have inherited a retirement plan, please let us know and we can advise you about the distribution rules that apply to your situation.

Roth Conversions and Recharacterizations:

Distributions from traditional and rollover IRAs are generally taxable when received. High-income taxpayers with traditional IRAs or rollover IRAs have an opportunity to roll over their IRAs into a Roth IRA. Contributions to Roth IRAs are non-deductible when made, but all principal and earnings will be distributed tax free, subject to meeting certain conditions. Many of you reading this may want to consider this. Over time it could save you and your heirs big taxes. However, it does not make sense in all cases and needs to be analyzed carefully.

There's another key point on this. The government gives you a do over, called re-characterization. You can change your mind if the value of your now Roth IRA goes down and you don't want to pay taxes on the original higher value. You can put it back to a regular IRA, as if nothing ever happened. And what makes this even better is that the government gives you until you file your tax return for that year. So, in a perfect world, if you converted on January 2, 2018 and you extend your 2018 tax return, you would have until October 15, 2019, to look back, see how it is doing and perhaps re-characterize it.

Last point on this, issues related to transferring wealth to succeeding generations also come into play here and should be considered. There is a lot to think about when it comes to whether to convert an IRA to a Roth IRA. Reasons for us to chat!

Set up a Cash Balance Pension Plan:

A "Cash Balance Plan" allows you to make substantially higher tax-deductible contributions than those permitted under other common types of plans. Such plans are easy to set up, but they must be established prior to the end of 2018 to make contributions that will save you taxes this year. Perfect candidates are businesses with at least two owners. They can also be used for a business owned by one individual if the business has substantial profits. Contributions to a Cash Balance Plan can be made on top of the maximum contributions made to a defined contribution plan. We've used these plans in recent years to save some of our business clients big taxes!

Self-employed? Consider a SEP or SIMPLE or KEOGH:
If you are self-employed, you should consider establishing a SEP, SIMPLE or Keogh retirement plan before year-end. You can contribute significantly more than $5,500 to these plans and you may not have to make any contributions to the plans until the filing date (including extensions) of your personal tax return.

Start your child's savings with a tax-smart Roth IRA:
If your child earns income from babysitting, an after-school job, a summer job or from helping out in your office, he or she is eligible for a Roth IRA. Although your teenager is probably not thinking about retirement, a Roth IRA is perfect for a child in a low tax bracket who has many years to let their account grow tax-free. You can contribute for your child if you don't exceed the annual gift tax limits. This is a great savings strategy. ☺

Planning for AMT

All taxpayers are potentially subject to two tax systems – the regular tax and the alternate minimum tax (AMT). Originally intended for high income taxpayers, it can affect anyone. It can affect you in one year and not in another. While the TCJA did not eliminate the AMT, it did make some changes to make it more "fair." The act temporarily increases the exemption amount to $1 million for married couples and $500,000 for all other taxpayers other than estates and trusts. These amounts will be adjusted for inflation annually until this provision expires in 2025. The changes to the AMT may make it easier to do year-end planning. However, since many of the strategies that are used for reducing your regular taxes may backfire when it comes to the AMT, you really need to know your exposure to the AMT. A combination of the following factors could trigger an AMT liability:

- Large deductions for state and local income or sales tax (welcome to New York, New Jersey and Connecticut!) – less now, as there is a cap on these deductions.
- A large long-term capital gain
- Large real estate taxes – less so now, as there is a cap on these deductions.
- Tax-exempt interest on certain private activity bonds
- The exercise of incentive stock options (ISOs)

With the changes made by the TCJA, you will be less likely to fall into the AMT. However, if you can prepay the following to reduce income subject to AMT:

- Charitable contributions
- Mortgage interest
- Margin interest

Be careful before you do this as the new standard deduction levels are higher in 2018 and this coupled with the higher AMT income levels, it may not make sense for you to prepay.

Impact of Incentive stock options on AMT:
The major AMT planning strategy comes into consideration when an executive receives an incentive stock option from his/her employer. While gain upon exercise of an ISO is not taxable for regular tax purposes, it is for AMT purposes unless stock is sold in the same year as in the exercise year. One must plan carefully when to exercise the ISO and whether to immediately sell the shares received upon exercise or hold them. Exercise ISO's early in the year. This gives you the full year to see if the

shares are down, get rid of them and not get hit with the AMT. I have heard the horror stories of people who converted their options, then held the stock they got until it subsequently went down. They ended up with an AMT bill higher than the value of their stock. A nightmare scenario.

Miscellaneous Planning Items for Individuals

Flexible savings accounts with balance (FSA):

Have a health flexible spending account with a balance? Spend it before year end (unless your employer allows you to go until March 15, 2019, in which case you have until then). Check with your employer if you have an optional grace period or else spend it before the year end. Remember you lose it unless you use it.

Health Spending Account ("HSA"):

If your employer offers an HSA, consider contributing. Contributions are typically made by the employer to your HSA and are not taxable to you. If you are a self-employed individual and have a high deductible health plan, consider opening your own HSA. An HSA allows you tax deductible contributions of up to $3,450 a year for self-only coverage and $6,900 for family coverage. If you are 55 or older, you can contribute an additional $1,000. There is no penalty if you contribute more. Unlike FSA contributions that you lose if not used, the unused HSA contributions accumulate year after year and can be used any time for qualified medical expenses. Earnings on contributions to an HSA can grow tax free. Distributions from an HSA if used for qualified medical expenses are tax free.

Vacation home:

If you own a vacation home that was rented out, look at the number of days it was rented and number of days it was used for your pleasure. If you spent less than 14 days at the home, it may make sense to spend a few more days and have the house qualify as a second residence, with the interest being deductible. For a rental home, deductions of expenses, including interest, are limited to rental income.

Entrepreneurs: Beware of the Hobby Loss Rule

Business versus a hobby is one of the most frequently litigated areas of individual income tax law. If you have your own business (for instance as a consultant) that is reported on Schedule C of the personal tax return and have losses for several years, the IRS may say it is a hobby and the losses will not be permitted to reduce your other income.

Could an activity be deemed a hobby?

In determining whether the activity could be deemed a hobby, we look at the nine factors cited within the IRS regulations:

1. *Manner in which the taxpayer carries on the activity:*
    a. Do you keep separate books and records?
    b. Are you taking necessary steps to ensure the business is profitable?
    c. Do you have a documented product or service line?

2. *Expertise of the taxpayer based upon past experience and education.*

3. *Time and effort expended by the taxpayer in carrying on the activity.*

4. *Expectations that assets used in the activity may appreciate in value.*

5. *The success of the taxpayer in carrying on other similar activities.*

6. *History of income or losses with respect to the activity.*

7. *The safe harbor rule of generating a profit at least three out of last five years.*

8. *The financial status of the taxpayer. Substantial income from other sources could prevent a taxpayer from establishing that the business is engaged for profit.*

9. *Elements of personal pleasure or recreation.*

Capital Gains and Trading in 2018

Tax Rate on Certain Capital Gains and Dividends

The American Taxpayer Relief Act of 2012, added a new 20% rate for high incomers. Thus, rates of 0%, 15%, and 20% apply to capital gain and dividend income for 2018 depending on your tax bracket. These rates also apply for alternative minimum tax purposes. They were not changed under the TCJA.

Capital gains and losses

If you have realized capital gains this year, consider taking capital losses prior to the end of the year to offset those capital gains. Anyone sitting with net gains in 2018 should act now if possible. Long-term gains are taxed at a lower rate than short-term gains and ordinary income. Planning for investment gains can reduce your taxes significantly. The long-term capital gains tax can be as much as 24%. An asset must be held for more than a year to be considered long-term.

Here is an easy way to save potential taxes that every investor should take the time to check out. Review the securities you have sold this year to see if you have a net gain or loss. Net any carry-forward losses from last year against 2018 trades. If the result is a short-term capital gain, it will be taxed as ordinary income unless you offset it with additional losses. If you have a net loss, remember that the maximum net capital loss you may deduct in any one year is $3,000. Losses in excess of this limit may be carried forward to 2019 and beyond.

If you have net gains, review your current holdings for sales that would result in a loss and which will reduce or eliminate your net gain. The last day to sell a security for a 2018 loss is December 31st. If you have losses already and are holding some positions with gains that you no longer wish to own, sell them to use up your existing losses or just keep the losses to use in the future.

Remember that capital losses realized in an IRA account are not deductible. ☹ Although you can choose when to realize capital gains and losses, we advise you to consider the future prospects of investments and not let tax consequences alone dictate when to sell.

Mutual fund capital gain distributions

Each year, mutual funds are required to distribute most of their net capital gains to avoid an excise tax. Mutual funds generally post their distribution estimates around this time of the year. Once you have reviewed this information, you should estimate your potential tax liability associated with your mutual fund holdings to determine if you should consider offsetting these capital gains with losses.

In addition, you may wish to postpone the purchase of a mutual fund's shares immediately before it distributes a substantial capital gain.

Watch out for the "wash sale" rule

To accelerate a loss without significantly changing your investment position, you can "tax swap" securities. That is, sell securities to recognize a loss and replace them with the same or similar securities. But watch out for the "wash sale" rule. If you sell a stock to recognize a loss, you may not repurchase the same stock for a 30-day period before or after the date of sale or the loss will be disallowed. You can replace it with a similar, but different security. The wash sale rule does not apply to gains.

If you like a particular stock for the long term, but would like to sell it this year to get the benefit of the loss, double up on the position more than 30 days before selling the original position. After at least 31 days, sell the higher cost shares. You'll create a tax loss and be left with the same number of shares you originally owned.

You must act quickly so that you will have owned the shares for at least 31 days and be able to sell the shares prior to December 31st. If too late for this year, remember this great strategy for next year.

Short Sales

When you sell a stock short, you effectively borrow the stock from your broker and sell it in the hope that the price will decrease. You then purchase stock at the lower price, using these shares to repay your broker. If you purchase at a lower price, you have a gain. This is treated as short-term capital gain subject to ordinary income tax rates. If you purchase at a higher price, you generally have a short-term capital loss. A number of special tax rules apply to short sales.

Margin Trading

Margin trading involves borrowing money from your broker to purchase a security. Interest charged on a margin account is deductible, but only when the interest is paid, subject to potential investment interest limitations.

Dividends and Interest Income

Reduction of tax on certain dividends

If you are an owner of a closely held 'C' corporation and as the company is in the 21% bracket (tax rate for 2018 and you are in at least the 25% bracket, taking a dividend payout in place of salary can result in a bit more money in your pocket after taxes. Note that if you follow the rules, dividends on stocks may be taxed at a lower rate than interest paid on bonds.

Keep track of accrued interest you paid

Keep accurate records for any accrued interest you paid when you bought bonds. You received interest from the last date the bond paid interest. This interest will be reported on your 1099 Form. Since you purchased the accrued interest, it's not taxable to you. Speak to us for information on how to write-off the accrued interest on your 2018 return.

Paying off nondeductible interest with a home equity loan is being eliminated

Under the TCJA all home equity loans created after December 21, 2107 are fully deductible only if the mortgage plus the home equity loan total $750,000 or less if the proceeds of the HELOC are only used to buy, build or substantially improve the taxpayer's home. Amounts exceeding the $750K threshold (even if used for home improvement) will be considered personal interest and not deductible or allowable.

Consider establishing a family limited partnership ("FLP")

Families set up these types of entities in order to provide for the consolidation of investments, centralization and succession of management, protection of assets from claims of creditors, and for the eventual transfer of wealth to succeeding family generations. Parents and grandparents often use an FLP as part of their estate and wealth transfer planning, since the value of an interest in such an entity for gift tax purposes often is discounted due to restrictions on the ownership interests. We have utilized this powerful tool but if you are going to consider using this technique as part of your planning, do so sooner rather than later as FLP's might be on the "hitlist" for future tax law changes.

Gifting Strategies to Maintain Family Wealth

Anyone is permitted to make gifts of up to $15,000 *per year* to an unlimited number of people without having to pay gift taxes. Married couples can make combined gifts of up to $30,000. A married couple wishing to make gifts to two married children and four grandchildren can make gifts of up to $240,000 per year ($30,000 to each child, grandchild and child's spouse) without paying any gift taxes. This is an uncomplicated way to reduce the size of one's future taxable estate.

Above and beyond the annual gift exclusion of $15,000, the federal applicable exemption amount for gifts during a lifetime is $5,600,000 and $11,200,00 for a married couple. This is by far the highest it has ever been. Wealthy individuals, who have both the means and desire to do so, might plan on making gifts up to the exclusion amount. This amount could be reduced in the future. As every estate and financial planning expert will tell you, making lifetime gifts is a simple and effective estate tax minimization strategy. Giving away assets at no gift tax cost will allow both the present value and its appreciation to escape the federal estate tax.

Be aware that direct payments of tuition and medical expense for another individual are not subject to gift tax. There is an unlimited exclusion of amounts paid directly to health care providers for medical expenses and educational organizations for tuition. This is in addition to the $15,000 ($30,000 in case of combined gift by married taxpayers) annual gift tax exclusion. In 2018, everyone can transfer up to $5,600,000 during their life-time without incurring a gift tax.

Of interest to New York State residents, in 2018 New York has increased the amount of property that can pass free of New York estate tax to $5,250,000 for an individual and $10,500,000 for a married couple with inflation indexing thereafter. In 2019, it is scheduled to equal the Federal estate tax exemption.

There are several other ways to reduce your taxable estate.

An individual can make a low interest rate loan to another person (e.g., a child or another person) who can invest the money and earn an amount greater than the interest he or she is required to pay on the loan.

Trusts:
Grantor Retained Annuity Trusts ("GRATs")

GRATs allow a donor to transfer assets with high appreciation potential out of their estate, provided certain conditions are met. The donor will fund the GRAT with highly appreciating assets and must receive an annuity payment from the trust each year. If the assets in the trust appreciate more than the interest rate prescribed by the Internal Revenue Service, that excess amount gets passed onto others (e.g., children) at the end of the trust term.

Intentionally Defective Grantor Trusts

The sale of assets to an intentionally defective grantor trust allows the donor to transfer or sell appreciated assets to a trust in return for an installment note. The transaction allows the grantor to freeze the value of the estate at the value of the promissory note, without income and gift tax consequences. If the assets in the trust appreciate beyond the interest rate prescribed by the IRS, the excess is transferred free of transfer tax to the remainder beneficiaries of the trust (i.e., children and grandchildren).

Shift income to your children. Consider making gifts to family members. Put your kids on the payroll!

Income taxes can be saved by shifting income-producing assets from parents or grandparents who are in a high-income tax bracket to their children and grandchildren who are in lower tax brackets.

Planning considerations include asset protection (accomplished with using trusts) and the “kiddie tax” for beneficiaries under age 24. For children under age 24 without earned income, the first $2,100 of unearned income will not be taxed. However, unearned income above $2,100 is taxed at a much higher rate than in the past. If total unearned income is $2,500 the tax is 10% on the amount exceeding $2,100, between $2,551 and $9,150, the tax rate is 24%, between $9,151 and $12,500 the rate is 35% and over $12,501 the max rate of 37% is applied. After calculated, the tax rate paid on the unearned income could exceed the parents’ rate, so it is important to examine their portfolio and see if methods used in past years to shelter income tax are still appropriate. These rates are the same for trusts except trusts are taxed on the first dollar of income. To avoid the “kiddie tax” do not sell appreciated securities and minimize interest and dividend paying investments. Alternatively, instead of gifting to a child’s custodial account, put cash into a 529 plan. Earnings in a 529 plan are never taxed if used to pay for college, graduate school or post high school vocational education and now, limited primary and religious education expenses.

If you own your own business, you can hire your kids and fully deduct their pay. And, if your business is unincorporated and your children are under the age of 18, you won’t owe any payroll taxes on their wages. A child having earned income may not be subject to “kiddie tax”, can establish his/her own retirement account (which may be funded by you!) thus shifting more income to lower tax bracket child!

Shift income upwards

Income can also be shifted upwards. For example, a high-earning professional can make a gift to his/her elderly parents who are in a lower tax bracket. The additional income can be used to help pay for medical and/or assisted living expenses. After the parents pass on, the assets can go to the original donor’s children for additional income shifting.

Among the services we provide is personal financial recordkeeping.

We track your income and expenses and provide comprehensive reports, so you’ll know where your money is coming from and where it’s going. We reconcile your bank, credit card and brokerage accounts to monthly statements. **Reports show changes in your net worth!** If you’d like, we can pay your bills for you. This service is also great for an elderly or disabled relative for whom you have fiscal responsibility. We can also prepare and file payroll tax returns for household employees like nannies and aides.

Other Miscellaneous Items

Casualty Losses

The casualty loss limitations have been changed under the TCJA. A loss occurring in 2018 can only be claimed when they are losses related to federally declared disaster areas. In the past, a casualty loss is deducted in the taxable year it was sustained, but if you suffered a loss caused by the major hurricanes classified as Federal disasters (Harvey, Irma or Maria), you have the option to take a casualty loss deduction in either 2018 or in 2017 (by filing an amended tax return or refund claim and thereby getting a quicker refund). The loss is claimed as an itemized deduction, and is calculated by first comparing the adjusted basis in the property before the casualty and the decrease in fair market value of the property because of the casualty, and taking the lower number. The next step is to subtract insurance or reimbursement received (or expected to be received). This sum is then reduced by $100 and then reduced further by 10% of your adjusted gross income.

Bunch Itemized Deductions

Many expenses can be deducted only if they exceed a certain percentage of your adjusted gross income (AGI). Bunching itemized deductible expenses into one year can help you exceed these AGI floors. However, with the TCJA, it has rendered most of those strategies moot. Here are some strategies still available and some that are no longer applicable:

1. Consider scheduling your costly non-urgent medical procedures in a single year to exceed the AGI floor for medical expenses. This may mean moving a procedure into this year or postponing it until next year. However, it is important to know the AGI medical limits for 2018 (7.5%) and 2019 (10%) and delaying the deduction from 2018 to 2019 may not yield the desired effect.

2. In years prior to 2018, the deductions for miscellaneous expenses, bunch professional fees like legal advice and tax planning, education expenses, as well as unreimbursed business expenses such as travel and vehicle costs that exceed the 2 percent AGI floor could be deducted. As the TCJA has eliminated these deductions, it is no longer applicable

3. Paying your final estimated state tax payment before year-end was a good way to increase your itemized deductions. With the IRS cap of $10,000 on all taxes paid, it may not make sense to make this prepayment any more.

But don't forget the potential impact of this strategy on the AMT. See "Planning for AMT" earlier.

Changes in Life Events

Certain life events can also affect your tax situation. If you got married or divorced, had a birth or death in the family, lost or changed jobs, or retired during the year, you should discuss the tax implications of these events. Some of these may provide planning opportunities.

Alimony/Child Support

There have been significant changes regarding alimony. For tax years beginning after December 31, 2018 (2019 and beyond) all payments for alimony are no longer be deductible by the payee and amounts received will not be considered as income to the recipient unless the divorce decree is executed by December 31, 2018. All pre-2019 divorce decrees regarding alimony follow the law in place before the TCJA and are deductible/includable by the payee/recipient on their 2018 tax return. As in past years, child support remains non-deductible/includible for the payee/recipient.

The birth of a child allows you an additional exemption and credit for dependent care if both parents are working. You may have inherited appreciated property or an IRA account upon the death of a loved one. Timing of the sale of the property may be important and whether to take distributions from the inherited IRA or roll it over will depend on your income for the year.

Same-sex marriage: The Obergefell v. Hodge Decision and Taxes

In Obergefell v. Hodges, the Supreme Court has unequivocally affirmed the constitutional right to same-sex marriages in all 50 states. This ruling is advantageous to couples that were legally married in any of the 50 states, the District of Colombia, a US territory or a foreign country. Notice 2017-15 allows same-sex couples and the estates of deceased same-sex spouses to recalculate their lifetime estate and gift tax amounts retroactively.

Adoption Credit

The maximum adoption credit or exclusion for employer-provided adoption benefits has increased to $13,840. To claim either the credit or exclusion, your MAGI must be less than $247,140.

Overstating basis of property sold can extend the statute of limitations (not a good thing!)

In cases where a taxpayer overstates the basis of property sold and thereby under reports gain subject to tax, the IRS now has the authority to audit returns for six years (as opposed to 3 years as before). The change applies to returns filed after July 31, 2015. How the IRS will decide if there is an overstatement of basis and therefore that the extended statute of limitation applies remains to be seen. Just be aware that the gain upon sales of property and securities will be subject to further scrutiny by the IRS.

Standard mileage rates.

The 2018 rate for business use of your vehicle is 54.5 cents per mile. The rate for use of your vehicle to get medical care or move is 18 cents per mile. The rate of 14 cents per mile for charitable use is unchanged.

Personal exemption eliminated

For 2018, the personal exemption amount ($4,050 in 2017) HAS BEEN ELIMINATED under the TCJA.

Special Tax Breaks for U.S. Armed Forces

Combat pay is partially or fully tax-free. Service members serving in support of a combat zone may also qualify for this exclusion.

Reservists whose reserve-related duties take them more than 100 miles from home can deduct their unreimbursed travel expenses, even if they don't itemize their deductions.

The Earned Income Tax Credit may be worth up to $6,444 for low-and moderate-income service members. A special computation method is available for those who receive nontaxable combat pay. Choosing to include it in taxable income may boost the EITC, meaning owing less tax or getting a larger refund.

An IRA or 401(k)-type plan might mean savings for retirement and cutting taxes too. Service members who contribute to a plan, such as the Thrift Savings Plan, may also be able to claim the Retirement Savings Contributions Credit.

An automatic extension to file a federal income tax return is available to U.S. service members stationed abroad. Also, those serving in a combat zone typically have until 180 days after they leave the combat zone to file and to pay any tax due.

Most military bases offer free tax preparation and filing assistance during the tax filing season. Some also offer free tax help after the April deadline. Service members who prepare their own returns qualify to e-file their federal return for free using IRS Free File.

Both spouses normally must sign a joint income tax return, but if one spouse is absent due to certain military duty or conditions, the other spouse may be able to sign for him or her. A power of attorney is required in other instances. A military installation's legal office may be able to help.

Those leaving the military and looking for work may be able to deduct some job search expenses, such as the costs of travel, preparing a resume and job placement agency fees. Moving expenses may also qualify for a tax deduction.

What to do between now and December 31, 2018
Strategies for Acceleration or Deferral of Income and Deductions

Many factors govern whether to accelerate income or defer income and to accelerate deductions or to defer deductions. AMT, impact on net investment income tax, impact on additional Medicare tax, available capital losses to offset capital gains, a need to seek financial aid to fund 4-year education of your child, your charitable giving intentions, medical needs of you and your family members, potential for greater or lower income in the future years, are only some of the factors to consider. Below we give some options to accelerate or defer income and/or deductions.

Options for accelerating income include:

- Ask your employer to pay your bonus in the current year
- Sell appreciated property
- Convert a retirement account into a Roth IRA and recognizing the conversion income this year
- Take IRA distributions this year rather than next year
- For self-employed, try to get clients or customers to pay before the year end
- Settle lawsuits or insurance claims with income potential

Options for deferring income include:

- Have your employer pay your bonus in 2019
- Consider installment sales of appreciated assets
- Delay exercise of stock options
- Invest in tax-exempt securities or in tax deferred annuities
- If possible, participate in an employer retirement plan or establish your own tax deferred retirement plan such as a traditional IRA, SEP, Simple or KEOGH

Options for deferring deductions include:

- Postpone charitable giving to next year
- Postpone payment of medical expenses
- Postpone the sale of any loss-generating property

Options for accelerating deductions include:

- Make January mortgage payment in December
- Bunch itemized deductions in one year
- Make larger charitable contributions in 2018, rather than 2019, if you can itemize your deductions
- Sell assets that may generate losses
- If qualified, set up a health savings account and contribute the maximum allowable
- If self-employed, set up a retirement account to take a self-employed retirement account deduction
- If self-employed, don't forget to take the self-employed health insurance deduction
- If you have children in college, make sure you take advantage of all available education credits or deductions

State Income Taxes and Rates

Take a Closer Look at Your State Residency Status

For individuals who split their time in two different states throughout the year, now is an excellent time to consider where you may be taxed as a resident for 2018. To make it more likely that the high-tax jurisdiction will respect the move and not continue to tax you as a resident, you should track the number of days you are spending in each jurisdiction. Generally, if you reside in a state for 183 days or more, that state will assert residency and the ability to tax all your income. Furthermore, if you move to a new state but you maintain significant contacts with the old state (including driver's license, residences, bank accounts and the like), you could run the risk of being taxed as a resident in the old state and possibly also in the state you move to. A careful consideration and review of state residency rules may help mitigate this unfortunate result.

Maximum State Tax Rates:

Connecticut	6.99%
New Jersey	8.97%
New York	8.82%
New York City	3.876%
California	13.3%

Year-end Planning for Businesses

Business Structure and Tax Planning

Income taxation and owner's liability issues determine which form of business entity should be chosen to operate a business. One may begin as a sole proprietor and as the business grows may consider changing the type of entity under which business should operate going forward. You have the choice of conducting your business as a sole proprietorship, a partnership, a "C" corporation or an "S" corporation. Any of these types of entities may have additional liability protection by electing to be an LLC. The choice depends on many factors: type of business, need for protection against creditors, need for simplicity, future growth plans and the likelihood of adding new owners. With the addition of the TCJA into the mix, it may be harder to decide which structure is the best.

S Corporation shareholder salaries

An individual owner actively involved in the business of his or her S corporation is required to take "reasonable compensation" for services provided to the S corporation. Many S corporation shareholders prefer to take distributions from the corporation as opposed to taking salary.

IRS is scrutinizing these distributions paid to the S shareholder. The distributions can be re-categorized as salary and penalties assessed. If the salary is not considered "reasonable", the IRS might re-categorize salary payments to the shareholders and require payment of back taxes along with interest and penalties. The key to avoid these is to provide "reasonable compensation" to the officers and shareholders based on facts and circumstances.

Depreciation

Under Internal Revenue Code Section 179, a taxpayer, other than an estate, or trust, or certain non-corporate lessors, may elect to deduct as an expense, up to $1,000,000 for qualified property.

Bonus first-year depreciation is still applicable for 2018. This allows taxpayers to deduct 100% of the cost of new depreciable property purchased after September 27, 2017.

Research credit

This credit allows businesses with qualified research expenses to receive a tax credit that reduces the entity's Federal business tax liability or potentially be used against other taxes like payroll taxes. Because of the reduction in the business tax rate, this credit is now enhanced under Section 280C.

Work opportunity tax credit

The Work Opportunity Tax Credit (WOTC) allows employers who hire members of certain targeted groups to receive a credit against payroll tax of $1,200 to $9,000 per qualified employee.

New York's Paid Family Leave program

Starting January 1, 2018, the New York State Paid Family Leave Program went into effect. Nearly all private employees in the state will be eligible. Insurance coverage will be added to an employer's existing disability benefits policy, and will be paid for by payroll deductions. The maximum employee contribution in 2018 is .126% of an employee's weekly wage.

Business Owners: Planning for vehicle deductions and substantiation

Vehicle expenses can be a source of significant deductions for many businesses. Make sure you maintain all the records required. If the standard mileage rate is used, businesses must maintain a detailed mileage log to be able to substantiate business mileage claimed. Parking and tolls are also deductible and records for these payments must be maintained. To deduct actual costs, additional records of fuel, lease, repairs and maintenance must be maintained. Since the IRS tends to focus on vehicle expenses in an audit and seeks to disallow these expenses, maintenance of proper records is essential.

Call us for help!

If you would like to discuss any topic concerning your specific situation, please give us a call. As always, we are available to help you with any tax, accounting, bookkeeping, investment, insurance or estate planning needs. But don't wait until mid-December!

If you are not a client of our office and wish to consider implementing any of these strategies, or just want to talk about your situation, please call us for a free consultation.

Sincerely,

Paul S. Herman, CPA

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CPA[SM]

The CPA. Never Underestimate The Value.[SM]

Disclaimer: The information presented here is to inform our clients of planning opportunities and tax laws. Since everyone's financial situation is unique, the material presented is not intended to constitute specific accounting, tax, investment or legal advice. Accordingly, please consult with a competent professional advisor as appropriate.

- APPENDIX-

Source: taxfoundation.org

2018 INDIVIDUAL INCOME TAX RATES

Rate	For Unmarried Individuals, Taxable Income Over	For Married Individuals Filing Joint Returns, Taxable Income Over	For Heads of Households, Taxable Income Over
10%	$0	$0	$0
12%	$9,525	$19,050	$13,600
22%	$38,700	$77,400	$51,800
24%	$82,500	$165,000	$82,500
32%	$157,500	$315,000	$157,500
35%	$200,000	$400,000	$200,000
37%	$500,000	$600,000	$500,000

DOLLAR LIMITS FOR RETIREMENT PLANS

Source: 401khelpcenter.com

Chart of Select Limits

401k Plan Limits for Year	2018	2017	2016	2015	2014	2013	2012
401k Elective Deferrals	$18,500	$18,000	$18,000	$18,000	$17,500	$17,500	$17,000
Annual Defined Contribution Limit	$55,000	$54,000	$53,000	$53,000	$52,000	$51,000	$50,000
Annual Compensation Limit	$275,000	$270,000	$265,000	$265,000	$260,000	$255,000	$250,000
Catch-Up Contribution Limit	$6,000	$6,000	$6,000	$6,000	$5,500	$5,500	$5,500
Highly Compensated Employees	$120,000	$120,000	$120,000	$120,000	$115,000	$115,000	$115,000
Non-401k Related Limits							
403b/457 Elective Deferrals	$18,500	$18,000	$18,000	$18,000	$17,500	$17,500	$17,000
SIMPLE Employee Deferrals	$12,500	$12,500	$12,500	$12,500	$12,000	$12,000	$11,500
SIMPLE Catch-Up Deferral	$3,000	$3,000	$3,000	$3,000	$2,500	$2,500	$2,500
SEP Minimum Compensation	$600	$600	$600	$600	$550	$550	$550
SEP Annual Compensation Limit	$275,000	$270,000	$265,000	$265,000	$260,000	$255,000	$250,000
Social Security Wage Base	$128,400	$127,200	$118,500	$118,500	$117,000	$113,700	$110,100