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Dear Clients,

We hope this letter finds you warm and dry during this wet spell we have been having in Kansas! Likewise, we hope that Christmas and the New Year holidays were a wonderful time spent with family and friends and that 2018 was a prosperous year for you all.

This year our newsletter is designed to give you the guidance needed for understanding how the big new tax law changes will personally affect you; to dispel some myths that are floating around; and to provide some basic ideas for tax planning.

### **2018 Tax Changes for Farm & Business Returns**

One of the new provisions that will affect farm and business tax returns this year is the elimination of the 1031 tax free exchange rules for equipment and vehicle trades. You will need to bring your contracts on all equipment and vehicle trades this year. Whatever your dealer put on the contract for the trade-in amount will now be considered the same as if you sold the asset for that amount and will be treated as ordinary income on your tax return. Your new piece of equipment can be depreciated at its full purchase price, more rapidly which will hopefully offset some of the tax generated. This may be one of the greatest challenges we deal with on many business returns.

One of the best benefits of the new tax bill is the Qualified Business Income Deduction. This can give you a 20% deduction on your business income with, of course, several limitations. IRS has not yet put out final regulations on this credit so we are waiting for their definition of a qualified business.

### **2018 Tax Changes for Individuals**

Everyone seems to think that the new "postcard" return will make income tax preparation easier! This is simply not the case. In addition to the "postcard" we now have six supporting schedules in place of the 1040. Generally, we are estimating a 20% increase in time to properly complete your return. Following, are some of the major changes that have been put in place.

The new Federal withholding tables were designed to lower your total tax bill for the year by giving you a bigger paycheck throughout the year. Unfortunately, they were not designed to give you a refund at year end, so if you did not change your withholding, your refund could be very small (if any) because you already received it in bits and pieces through larger paychecks throughout the year. Depending on the outcome of your 2018 return, one of our simple recommendations for 2019 is that all married individuals fill out a W-4 reflecting "single and zero" withholding.

The ability to itemize deductions has been dramatically decreased because the new law provides a much, much larger standard deduction (Single \$12,000 & Married filing jointly \$24,000). You are still allowed to deduct the greater of the two.

A major change has occurred on home equity lines of credit and 2nd mortgages, most of which are not deductible. In order to get your largest deduction, we will need to know much more information on these amounts than in the past such as amounts borrowed and original use of those funds.

Employee work-related business expenses are no longer deductible on the Federal return. If you incur a number of these types of expenses, you need to discuss the use of an accountable reimbursement plan with your employer.

Most home-related energy efficiency credits are now expired, but a 30% Federal credit still exists for solar, wind and geothermal costs; and a \$7,500 Federal credit for buying a fully electric car still applied through the end of 2018.

If you are retired, over age 70 ½, and have an IRA you must utilize the direct IRA to charity transfer tool to make charitable contributions. This simple trick can save you hundreds of dollars in income tax.

With over 50% of working Americans now covered by health savings insurance plans, it is of absolute importance that you start a health savings account, if your plan is HSA qualified. We will be glad to discuss some excellent tax-savings ideas with you for these tax-beneficial plans.

In case you were wondering, you were still required to maintain health insurance for every member of your family for 2018 or face a potential penalty.

Finally, in order to prepare your return this year we are required to obtain all of your W-2's, 1099's from retirement, interest, dividends and brokers, Forms 1095 for health insurance, bank Forms 1098 and any other official IRS documents.

### **2018 and Future Tax Planning Ideas**

1. Every year we are asked "What can I do to pay less tax". One of the single greatest tax savings is to defer nearly \$20,000 into a 401-K if your employer has one.
2. In the current tax era of greatly increased requirements to itemize deductions, tax "bunching" is a good strategy. The "bunching strategy" recognizes that the best tax deductions are obtained by putting deductions in one year rather than spreading them amongst several years. For example, in years where your charitable contributions are very low, hold off until the next year to catch up, then also pay the full amount of the next year's contributions in the "catch up" year in order to double your chances of itemizing. Similarly, few Americans receive medical deductions anymore, but if you incur a large expense for say, the deductible on surgery, then try to do all of your other medical items in the same year, such as dental and vision exams, check-ups, etc.
3. Check into your employer's handbook to see what employer provided fringe benefits are available. Taxpayer's are often surprised at the available benefits, or at our explanation of what some benefits really mean. We offer special "tax planning" sessions to go through the handbooks and your paycheck to see what is available and what your options may be, via appointment.

We are happy to meet with you throughout the year for tax planning, retirement and similar income tax related issues, and sincerely appreciate your continued business each year.

Thank you,

ANGEL & COOK, LLC

