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Dear Clients & Friends:

Year-end 2018 sees the end of the first year of the Tax Cuts and Jobs Act (TCJA), the most significant tax legislation in the United States in more than 30 years. While one of the claimed benefits of tax reform was the simplification of filing and the lowering of income tax rates, keep in mind that California only conforms to limited TCJA provisions. This non-conformity adds yet another layer of complexity to the 2018 tax filing year. With careful planning there are still many steps that individuals can take that can lower their tax bills. Here are some points to consider:

Individuals

Income tax rates. One of the most significant factors in tax planning for individuals is their tax bracket. The most direct control taxpayers have over their tax bracket rests in their ability to control the timing of income and deductible expenses. For example, taxpayers who expect to be in a lower tax bracket in 2019 should consider deferring income to 2019 and accelerating deductions into 2018. While tax brackets seem as though they will be relatively stable for the next few years, individual circumstances could mean a shift in brackets from year to year.

Investments. Taxpayers holding investments, whether in the form of securities, real estate, collectibles, or other assets, often have an opportunity to reduce their overall tax bill by some strategic buying and selling toward the end of the year, as well as, exchanging appreciated assets for like-kind property in order to defer gains. Balancing tax considerations with other factors is part of the challenge in dealing with investments.

Life events. The biggest variables for many taxpayers impacting their year-end tax planning surrounds life events such as marriage, divorce, birth or adoption of a child, a new job or the loss of a job, and retirement. These life events may, for instance, result in a change in filing status that will affect tax liability. Additionally, taxpayers need to take a look into the future and predict, if possible, any events that could trigger significant income, losses, or deductions.

2018 tax law changes. Nearly all of the provisions of TCJA came into effect during 2018. There are many new tax laws that individuals should be aware of.

- **Alimony.** One very significant change that comes into effect January 1, 2019, is the treatment of alimony. Beginning with divorces and separation agreements entered into after December 31, 2018, alimony or separate maintenance payments are no longer deductible by the payor, nor includible in the income of the payee. This change does not affect divorce or separation agreements entered into before 2019, nor those altered after 2018 where the changed method of taxation is not expressly stated to apply.
- **Medical expenses.** TCJA lowered the floor for claiming deductions for medical expenses to 7.5 percent of AGI for all taxpayers, not just those aged 65 or higher, applicable to 2017 and 2018 only.
- **State and local taxes.** TCJA limits the deduction for state and local taxes to \$10,000 per year.

- **Increased standard deduction.** One of the most broadly impactful provisions of TCJA was the near doubling of the standard deduction for all taxpayers. For 2018, the standard deduction amounts are \$24,000 for joint filers, \$18,000 for heads of households, and \$12,000 for all other individual filers. This increased amount makes it less likely that it is more advantageous for individuals to itemize deductions.
- **Miscellaneous itemized deductions.** TCJA eliminated miscellaneous itemized deductions for individuals. This includes deductions for unreimbursed employee expenses.

Businesses

Depreciation and expensing. TCJA made some significant changes to encourage business to expand and invest in new property. First-year depreciation allowances on certain business property, or bonus depreciation, has fluctuated over the last few years, but TCJA provides for 100 percent bonus depreciation for property placed in service before 2023. Additionally, the limitation on expensing certain depreciable assets has been increased to \$1 million, with a \$2.5 million investment limitation.

Qualified business income deduction. Beginning in 2018, business owners to deduct up to 20 percent of their qualified business income (QBI) from sole proprietorships, partnerships, trusts and S corporations. This is one of the centerpieces of TCJA, and broadly applies to many taxpayers. This is a completely new deduction, with new documentation requirements, which may require a year-end review of records.

Family Leave Credit. TCJA also created a new credit for employers making family leave payments to employees. The credit is only available to employers who have a written policy in place for the payment and credit. The IRS has issued guidance allowing the credit to be claimed for all of 2018 by employers who have a written policy in place before the end of 2018. Employers who make these payments, and want to claim the credit still have time to create the policy.

Employee benefits. TCJA made a large number of changes on the individual side relating to benefits that could impact employers. Employees can no longer claim miscellaneous itemized deductions, cannot generally exclude moving expense reimbursements, and the deduction for business meals and entertainment was also impacted. Employers should review their internal policies to determine if they need to be changed to reflect the changes.

These are just some of the considerations that can yield tax savings for you and your business as year-end 2018 approaches. Please feel free to contact our offices so we can discuss specific 2018 year-end strategies that might be particularly worthwhile for you.

Sincerely,

Franzen & Franzen, LLP
Certified Public Accountants