TAX PLANNING NEWSLETTER

Midyear 2018

Dear Clients and Friends,

Summer used to be a time to unwind and make minor tweaks to your annual tax plans. But a tidal wave of new tax laws changes all that. Now, more than six months after the passing of the Tax Cuts and Jobs Act (TCJA), taxpayers are still experiencing anxious uncertainty.

We're here to help you navigate the uncharted waters of the new and modified tax laws, and give you straightforward answers about how the changes will affect you. The choices you make today will determine whether you're in a position to sink or swim when tax season arrives.

Taking the new laws into account, we'll work with you to create updated strategies to cut your 2018 tax bill, including your business taxes. Plus, offer tips on how to protect your legacy now and for future generations.

Don't leave your tax plan up to fate. Call today to schedule a midyear review.

Sincerely,
CONWAY, DEUTH & SCHMIESING, PLLP

SCAM PREVENTION

Know the Facts on How the IRS Contacts Taxpayers

Visit our Online Resources page:
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Click on the dropdown "Tax"
for the new IRS Fact Sheet.

New IRS Fact Sheet Now Available!

CDS
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Want to avoid a 2018 tax surprise? Plan NOW!

This year marks the first in decades with massive tax law change, creating uncertainty and potential tax surprises at year-end. Don't let this happen to you. Steer away from tax bill surprises by reviewing these important considerations:

»» Will you itemize in 2018?

Anyone who itemized deductions in 2017 will find they may need to change their strategies in 2018. That's largely due to the major standard deduction increase, from $6,350 to $12,000 for single filers and $12,700 to $24,000 for married couples filing jointly.

Your ability to itemize may be most affected if in the past you relied heavily on the state and local tax deduction, home equity interest deduction, and miscellaneous itemized deductions. That's because these deductions have been suspended, eliminated or minimized in 2018.

It's possible you will still itemize deductions if you have a home mortgage, high medical expenses, charitable donations, and/or high property or state income taxes.

Other deductions impacted: In addition to the new world of itemized deductions, other tax changes will materially change your 2018 tax obligation. These include the elimination of exemptions, the suspension of moving expense deductions, and major increases in the Child Tax Credit.

»» Is charitable giving a priority for you?

The standard deduction increase will likely prompt many taxpayers who will no longer benefit from itemizing to adjust their charitable giving tax plan this year.

The good news is that beneficial tax treatment for donating is still available . . .it'll just require a bit more planning. Consider this new bundling approach:

» Figure out how close you think you'll come to your 2018 standard deduction threshold. Account for your typical charitable contributions when you estimate your potential itemized deductions.

» Consider moving two years of charitable giving into one year. This may allow you to itemize deductions in the year of maximum giving, while using the tax savings of the higher standard deduction in the other year to help pay for your donations.

» Think about donating appreciated stock that you've held longer than one year. You can avoid paying capital gains, plus you can deduct the fair market value of the stock as a donation.

»» Are you depending on a home equity loan interest deduction?

If you've deducted interest on a home equity loan you used to buy, build or substantially improve your home, you're in for some good news: you can still deduct the interest in 2018! On the flipside, if you used the loan to pay off credit card bills or for other debt, you can no longer deduct the interest.

You'll need to take this into account as you determine what interest you can deduct as an itemized deduction this year. Understanding the impact of this change as a business owner is especially important if you use a home equity loan to fund your business.

»» Do you know how tax changes affect your retirement accounts?

Now is the time to consider how the modified laws will change your retirement account withdrawal plans. This includes figuring out what new federal income tax bracket you fall into and how your retirement account contributions or withdrawals should be revised to reflect the tax changes.

Give us a call. We'll be happy to help you create a comprehensive action plan based on the new tax laws so you can save the most tax dollars as possible in 2018. »»

	Old Law			New Law		
Standard deduction	$6,350 (Single) $12,700 (Joint)			$12,000 (Single) $24,000 (Joint)		
Personal exemption	$4,050			$0		
Tax rates		Single	Joint		Single	Joint
	10%	$0-$9,325	$0-$18,650	10%	$0-$9,525	$0-$19,050
	15%	$9,326-$37,950	$18,651-$75,900	12%	$9,526-$38,700	$19,051-$77,400
	25%	$37,951-$91,900	$75,901-$153,100	22%	$38,701-$82,500	$77,401-$165,000
	28%	$91,901-$191,650	$153,101-$233,350	24%	$82,501-$157,500	$165,001-$315,000
	33%	$191,651-$416,700	$233,351-$416,700	32%	$157,501-$200,000	$315,001-$400,000
	35%	$416,701-$418,400	$416,701-$470,700	35%	$200,001-$500,000	$400,001-$600,000
	39.6%	$418,401 and up	$470,701 and up	37%	$500,000 and up	$600,001 and up
State and local tax deduction	Allowed as an itemized deduction with no limit			Deduction limited to $10,000		

Business taxes: your essential midyear review

With all of the tax code changes, it's more important than ever that you make a business tax review an integral part of your planning strategy this year. Here are three areas to focus on:

»» Re-examine your business structure

Whenever corporate tax rates move in a different direction from individual rates, an evaluation of your business entity may make sense. That's because when your business is an S corporation or a partnership, the income "flows through" to you and is taxed at your individual rate.

What's new this year is that C corporation tax rates are now lower. They are reduced to 21 percent.

What to do: *Given the dramatic reduction in C corporation tax rates, consider an analysis of the tax benefits of changing your business structure versus the long-term costs of doing so. You may save on income taxes in the short term, but if you plan on distributing corporate income or selling the business in the near future, it may not make sense to change your structure.*

»» Calculate your basis

As an S corporation shareholder, knowing your basis is key to determining whether you can deduct current-year losses. The reason: Losses in excess of basis are generally suspended for use in later years when your business has income.

Basis is also important if you plan to take nontaxable distributions. In cases when distributions exceed your investment in the company, the distributions can easily create a taxable event.

What to do: *Perform a basis checkup this summer. Take into account income, distributions, deductions, losses, additional investments and loans – all reasons you may need to adjust your basis.*

»» Consider the loss of the domestic production activities deduction (DPAD)

If you relied on the DPAD in the past, you're going to need to revise your business's tax plan for 2018 because it's been repealed. Luckily, the introduction of the new 20 percent business income deduction should offset some of the impact of the lost DPAD tax benefit.

What to do: *Determine if you'll be able to use the full 20 percent business deduction and how that measures up to the savings you had in the past from the DPAD. Keep in mind, the new business deduction is reduced if your income exceeds certain thresholds. It also depends on the type of business you own and whether or not it provides certain services that the tax code treats differently.*

Be proactive with your business tax planning this summer. Call today to ensure your business does not create any tax surprises with all the new rule changes.»»

5 life events that may alter your tax bill

While tax code overhauls are bound to change your tax bill, an event in your own life is a much more common reason why you'd need a tax tune-up. Here are a few examples that may require a review:

- » **A raise or promotion:** It probably feels pretty good to know that your hard work pays off. But consider that you may pay a higher tax bill because you may be nudged into a new income tax bracket.
- » **A relationship change:** A marriage or divorce will change your filing status. Remember that a filing status change in December will still apply to the whole year.
- » **A home sale:** Buying and owning a home opens up new doors to deductions and credits, including mortgage interest, home equity loan interest and energy efficiency. It also brings in the often-used capital gain tax exclusion.
- » **A birth:** New life, new tax breaks. Having a baby means you may be able to take advantage of credits, like the Child Tax Credit, Family Credit or Earned Income Tax Credit.
- » **A death:** While inheritance is often tax-free, there are exceptions. They include IRAs (distributions of which may be taxed), as well as understanding the tax impact of inherited property.

If you'd like more information about how a big life event could change your tax obligations, please call. »»

Don't let your nest egg become a hornet's nest

At some point on your journey to retirement, your focus will likely shift from your own needs to the needs of those you leave behind. Learning the tax treatment of inherited retirement assets is a good first step toward passing them on wisely.

» Not all assets are treated equally

A typical estate can have assets with a variety of tax implications for heirs. On one end of the spectrum, life insurance death benefits are almost never taxable to the beneficiary, making it a popular choice among financial planners.

An investment such as a home, corporate stock (in a taxable account) or jewelry might result in taxes to the heir, but not until sold. Even then, the heirs will receive what's called a "stepped-up basis," meaning their cost for purposes of calculating capital gains tax will be the fair market value at the time of their loved one's passing, not the original cost.

What's more, an heir can qualify for lower long-term capital gain rates. And tax from the sale of a home can be potentially avoided altogether if the heir lives in it for a certain period of time.

» Retirement accounts can come with a sting

Inheriting a qualified retirement account, like a 401(k) or IRA, is a different ballgame. Non-spousal recipients can face a sizable tax bill from the moment they receive the account. Not only can this be a financial shock, but it might require the heir to sell some of their inheritance to pay the tax bill.

As an alternative, a Roth IRA or Roth 401(k) will not cause an immediate tax bill for your heirs. This is because the taxes have already been paid during your lifetime. But there are still special rules to follow, like the one preventing withdrawals of investment earnings from an inherited Roth IRA until five years after the account was opened by the person who passed away.

» Tax-efficient ideas to consider

So how should you structure your portfolio and income sources to minimize the tax and financial burden on your family? Consider the following ideas:

- » Consider drawing down your regular 401(k) or IRA accounts first, and leave the Roth accounts for your estate, as they have favorable tax status.
- » Consider using your regular IRA to pay qualified higher education expenses for you, your children or your grandchildren while you are living. This can help avoid an early withdrawal penalty.
- » Consider making a qualified charitable transfer of up to $100,000 straight from your regular IRA to your favorite charity (if age 70½ or older) to avoid an income tax event.
- » Consider gifting up to $15,000 per year tax-free to each of your family members.

» Avoid a hornet's nest

While thinking about your estate, compile a list of all your investment and bank accounts and make a record of where each account is held and who to contact when you are gone. Also, write down special instructions for the care and ultimate distribution of personal assets that have meaning to you. Taking these few steps now could pay dividends for those you leave behind and help avoid the sting of potential arguments during an already stressful time.»»

Heather Thompson and Michelle Hanson were admitted as Partners at CDS on January 1, 2018.

Heather Thompson has been our Firm Administrator since 2009, directing many of our firm's successful initiatives—including staff recruitment and retention, strategic planning, facility enhancements, staff development programs, community and volunteer activities, and special projects. Her unique skills and perspectives have been instrumental in developing our firm's culture and working environment.

Michelle Hanson, CPP, CHRS, is the Director of Payroll Services, overseeing the growth and service enhancements that have made CDS a leading payroll provider in West Central Minnesota. She provides visionary improvements to the payroll department, places a high priority on client service, and helps team members advance their skills and job satisfaction.

STAFF PROMOTIONS

Karla Hemmesch, EA, was recently promoted to Senior Accountant. She joined CDS in 2012 as a Staff Accountant in our Willmar office. Karla graduated from Minnesota State University Moorhead, in Moorhead, MN with a Bachelor of Science degree in Accounting and a minor in Finance. She received her QuickBooks ProAdvisor certification in 2013 and her EA certification in 2016. Her focus areas are tax preparation, bookkeeping, payroll, and QuickBooks. Karla is a member of the MAPA.

Brent Ascheman, CPA, was recently promoted to Senior Accountant. He joined CDS in 2013 as a Staff Accountant in our Sartell office. Brent graduated from St. Cloud State University in St. Cloud, MN with a Bachelor of Science degree in Business Management. He received his CPA certification from the Minnesota Board of Accountancy in 2017. Brent received his QuickBooks ProAdvisor certification in 2015. His focus areas are tax preparation, financial statements, business consulting, QuickBooks, bookkeeping, and the petroleum industry. Brent is a member of the AICPA, the MNCPA, the Central Minnesota Networking Group, and the Sartell and St. Cloud Chamber of Commerce organizations. He is also involved with the Central Minnesota Builders Association.

Brenda Parsley, CPA, was recently promoted to Senior Accountant. She joined CDS in 2016 as a Staff Accountant in our Willmar office. Brenda graduated from Southwest Minnesota State University in Marshall, MN with Bachelor of Science degrees in Accounting and Finance with a Corporate Finance concentration. She received her CPA certification from the Minnesota Board of Accountancy in 2017. Her focus area is governmental auditing. Brenda is a member of the AICPA and the MNCPA. She is an active volunteer for the United Way of West Central Minnesota. She is a member of the Willmar Lakes Area Chamber of Commerce's neXt organization.

Mitchell Erickson, CPA, was recently promoted to Senior Accountant. He joined CDS in 2016 as a Staff Accountant in our Willmar office. Mitchell graduated from North Dakota State University in Fargo, ND with a Bachelor of Science degree in Accounting. He received his CPA certification from the Minnesota Board of Accountancy in 2017. His focus areas are tax preparation, multi-state tax, and bookkeeping. Mitchell is a member of the CDS Tax and IT Committees. He is a member of the AICPA, the MNCPA, and the Willmar Lakes Area Chamber of Commerce's neXt organization. He is a 2018 graduate of the Willmar Lakes Area Chamber of Commerce Leadership Perspectives program.

MEET OUR NEWEST CPA

Mackenzie Dokkebakken has earned her CPA certification. She joined CDS in 2016 as a Staff Accountant in our Benson office. Mackenzie graduated from Concordia College Offutt School of Business in Moorhead, MN with a Bachelor of Arts degree in Accounting. Her focus areas are tax preparation and bookkeeping. She is also a member of the Willmar Lakes Area Chamber of Commerce's neXt organization.

NEW DESIGNATIONS

Brady Koehl, CPA, recently completed and passed the QuickBooks Certification coursework and exam to become a Certified QuickBooks ProAdvisor. He joined CDS in 2016 as a Staff Accountant in our Morris office. Brady graduated from Southwest Minnesota State University in Marshall, MN with a Bachelor of Science degree in Accounting, with minors in Agribusiness Management and Economics. Brady received his CPA certification from the Minnesota Board of Accountancy in 2017. His focus areas are tax preparation, bookkeeping, and agribusiness. Brady is a member of the AICPA, the MNCPA, and volunteers with Stevens County Pheasants Forever. He is a 2018 graduate of the Leadership Stevens County program.

NEW HIRES

Shawn Hanson joined CDS as a Staff Accountant in our Willmar office. He graduated from Southwest Minnesota State University in Marshall, MN with a Bachelor of Science degree in Accounting. His focus area is governmental auditing. Shawn is a member of the Willmar Lakes Area Chamber of Commerce's neXt organization.

Mary Brouwer joined CDS as a Staff Accountant in our Willmar office. She was an intern for CDS in 2017. Mary graduated from Dordt College in Sioux Center, IA with Bachelor of Arts degrees in Accounting and Business Administration, with a focus on Finance, and a minor in Economics. Her focus areas are tax preparation and bookkeeping. Mary is a member of the Willmar Lakes Area Chamber of Commerce's neXt organization.

Marisa Winters joined CDS as a Staff Accountant in our Willmar office. She graduated from Southwest Minnesota State University in Marshall, MN with Bachelor of Science degrees in Accounting and Finance. Her focus area is governmental auditing. Marisa is an active volunteer with the American Red Cross. Marisa is a member of the Willmar Lakes Area Chamber of Commerce's neXt organization.

Nicholle Peterson joined CDS Administrative Services, LLC (CDSA) as an Employee Benefits Administrator in our Willmar office. Prior to CDSA, she worked in client service and as an office manager for over twenty years. Her focus areas are the administration of Retirement Plans, Flex Plans, Health Savings Accounts (HSAs), and Health Reimbursement Arrangements (HRAs).

CDS HR On-Demand

6 Ways It Can Help Streamline Your HR

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