

# TAX PLANNING NEWSLETTER

Year-end 2018

Dear clients and friends,

While the final chapter of 2018 may be coming to a close, the tale of how taxpayers will fare from major tax law changes is only just beginning.

You can be the hero in your own 2018 tax return story, despite hundreds of pages of tax code edits and additions. But you have to act fast while there's still time to revise your plan.

To help you learn more about major changes that will most likely impact your tax situation, please review this *Tax Planning Newsletter*. Read about the dramatic standard deduction increase and the personal exemption elimination, as well as other changes that may alter your tax bill. Then find out how you can prepare — especially if the tax deductions, credits, and other strategies you've benefited from in the past are no longer options for you.

Don't hesitate to schedule an appointment to discuss any last-minute tax moves.

As always, feel free to share this *newsletter* with friends and associates who are interested in minimizing their taxes for 2018 and beyond.

Sincerely,

CONWAY, DEUTH & SCHMIESING, PLLP

*Conway, Deuth & Schmiesing, PLLP*

## MINNESOTA'S MINIMUM-WAGE RATES CHANGES

### As of January 1, 2019

- » Large employers must pay at least \$9.86 an hour when the employer's annual gross revenues are \$500,000 or more.
- » Small employers must pay at least \$8.04 an hour when the employer's annual gross revenues are less than \$500,000.
- » The training wage rate, \$8.04 an hour, may be paid to employees younger than 20 years of age for the first 90 consecutive days of employment.
- » The youth wage rate, \$8.04 an hour, may be paid to employees younger than 18 years of age.

These state minimum-wage rates will not apply to work performed in the city of Minneapolis, which has higher minimum-wage rates.

#### LOCATIONS

Willmar | Benson | Morris | Litchfield | Sartell

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## Don't ignore these money-saving tax ideas

**T**he end of another year is fast approaching, meaning it's time to take action to reduce taxes on your personal tax return. Consider these tax-savvy strategies:

### » **Bunch your deductions**

In light of the recent standard deduction increase, bunching deductions on your personal income tax return may be especially helpful for 2018 if you'd like to itemize.

Bunching means concentrating multiple years of itemized deductions into the year offering the greatest tax benefit. You then claim the standard deduction in alternate years. Bunching is most effective when combined with other tax planning, such as reducing your adjusted gross income (AGI).

For instance, charitable contributions can often be effectively bunched. In general, as long as you have written acknowledgment from a qualified charity, you can deduct donations in the year you write the check or put the charge on your credit card.

Keep in mind that donating appreciated assets before Dec. 31 may be more tax advantageous than cash

contributions. When you contribute property you have owned for more than a year, you can usually deduct the full fair market value.

Other itemized deductions you can control in order to maximize tax savings include medical expenses, as well as real estate interest payments and state income taxes.

### » **Monitor your AGI**

Another tax-planning strategy is to reduce your AGI. One way to do this on your personal tax return is to maximize above-the-line deductions. These are expenses you can claim even if you don't itemize.

Review above-the-line tax ideas to lower your taxable income. They include retirement plan contributions and withdrawals, student loan interest deductions, teacher classroom expenses and health savings account contributions.

### » **Consider shifting income**

Since individuals are taxed on a cash basis, any income you can shift into next year or deductible payments you can make this calendar year can help reduce your taxable income. So delaying receipt of bonuses, or prepaying some eligible

deductions before the end of the year are workable ways to help manage your taxable income.

You can also reduce some of your tax by shifting income among family members. You could consider making gifts of income-producing property to family members in lower tax brackets. Up to \$2,100 of unearned income is usually taxed at a rate lower than yours. Though you can't take a tax deduction for gifts, up to \$15,000 can be given to a person each year (\$30,000 when you're married) and avoid any gift tax complications.

To discuss the tax-cutting options best for your individual circumstances, call to schedule a year-end tax review. »

## 3 ways to cut business taxes

Looking to minimize your business taxes? Consider these three options:

### 1 **Manage asset policies.**

Review your asset management policies. Depreciation is probably the first thing you think of when you consider tax benefits for business assets.

You may have heard that bonus

depreciation increases from 50 percent to 100 percent for qualified property acquired and placed in service after Sept. 27, 2017. And the Section 179 expensing deduction increases to \$1,000,000 from \$500,000 this year.

While accelerated depreciation tax rules affect your current year deduction, remember that changes to these rules have no impact on the total amount you can deduct over the life of an asset.

However, you do still have tax planning opportunities. Consider examining the tax benefits of leasing business equipment instead of buying. Depending on the type of lease, you may be able to deduct payments in full as you make them. What's the downside? Generally you'll forfeit depreciation deductions. Run an analysis to determine which option will work best for you.

### 2 Set up a retirement plan.

Contributions to a self-employed retirement plan reduce above-the-line AGI. Depending on the plan you choose, you can set up the paperwork before year-end and make contributions by the due date of your 2018 tax return.

For instance, say you're the sole owner of your business. Establishing a 401(k) gives you the opportunity to set aside as much as \$18,500 in salary deferral (plus an extra \$6,000 if you're older than 50). In addition, you can put up to 20 percent (not to exceed \$55,000) of your business profit into your plan.

3 Consider hiring family. If you decide to hire family members, pay a reasonable — and deductible — salary for work actually performed. You may be able to provide tax-deductible fringe benefits, as well as save on payroll tax expenses. >>>

## 5 reasons your 2018 taxes may cause you drama

Here are highlights of five major tax changes you shouldn't ignore because they're bound to make a difference to your tax situation:

### 1. Larger standard deduction adds uncertainty.

The standard deduction increased to \$12,000 for individuals and \$24,000 for married couples (up from \$6,350 and \$12,700, respectively). While some will find themselves moving from itemizing to using the standard deduction, many will not. This is especially true if you own a home, have high medical bills, or donate to charities. Single taxpayers will also find themselves less likely to use the standard deduction, as new deduction limits tend to favor them over married couples.

2. Limits added and deductions removed. A cap of \$10,000 is placed on state tax deductions — this includes property taxes, state income taxes, and sales taxes. And home equity loan interest can now only be deducted if the funds are used to buy, build or significantly improve your home. Plus, all miscellaneous deductions have been eliminated, including non-reimbursed job expenses, union dues and investment-related expenses.

### 3. Proposed smaller Form 1040 requires six new schedules.

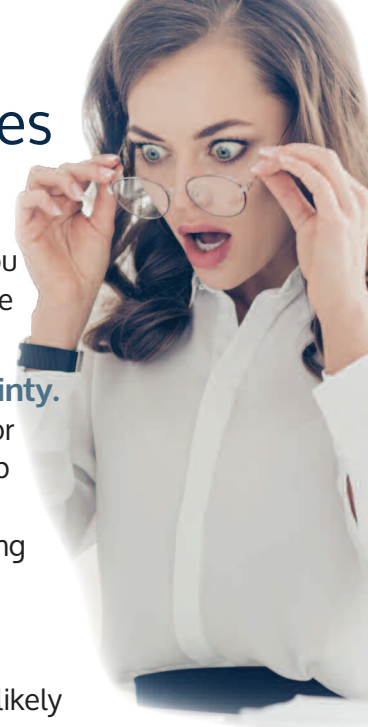
In an attempt to deliver a postcard-sized Form 1040, the IRS has proposed a smaller Form 1040. Lines are combined or shifted to one of six new schedules. With the creation of the newly proposed form, the 1040EZ and 1040A would be eliminated. If published, the 1040 may be more complicated than ever.

4. Personal exemptions eliminated and the Child Tax Credit expanded. Personal exemptions of \$4,050 for you, your spouse, and each dependent are gone. The Child Tax Credit, however, has been doubled to \$2,000 per child. The income limits are drastically higher for the credit phaseout: \$200,000 for single and \$400,000 for married (up from \$75,000 and \$110,000, respectively). As a result, most people with children under age 17 will be entitled to the Child Tax Credit.

5. Big changes for small businesses. The top C corporation tax rate has been lowered to 21 percent (down from 35 percent). There is a new tax benefit for sole proprietors, partnerships, and S corporations in the form of a 20 percent qualified business income deduction.

In addition, bonus depreciation and Section 179 expensing have been expanded. Unfortunately, the domestic production activities deduction (DPAD) is no longer available this year.

With all of the tax changes, this year's filing season is setting up to be an adventurous one. Call if you have questions. >>>



# Does a donor-advised fund fit your giving strategy?



**N**ew higher standard deductions and limits on itemized deductions are creating uncertainty about the tax benefit of charitable donations. On the flip side, a charitable deduction is still one of the most controllable deductions available to you in terms of timing and dollar amount.

So how can you donate to your favorite charities while still taking a tax deduction? Consider donor-advised funds.

## Donor-advised funds explained

Think of a donor-advised fund as a charitable savings account, except that withdrawals (grants) can only be given to eligible charities. It is an account controlled by a third-party sponsoring organization for the sole purpose of donating your funds to charity. While the sponsoring organization has control over the funds once they are contributed by you, you still decide what charity the funds eventually go to and when they'll be donated.

Donor-advised funds are administered by sponsoring organizations such as financial service companies, community organizations, and academic institutions. The good news is most financial institution donor-advised funds will allow you to keep the funds in the account for as long as you wish and make grants to any eligible charity out of it.

## Benefits of a donor-advised fund

### »» Immediate tax deduction

The full charitable tax deduction is available in the year the funds are contributed to the account, even if you haven't decided which charities will receive a distribution. Even better, annual deductible donations are now available for up to 60 percent of your adjusted gross income (AGI) for cash donations (formerly 50 percent) and 30 percent of your AGI for security donations.

### »» Avoid capital gains tax

When donating appreciated long-term securities (held longer than one year), you are able to deduct the full market value of the asset as an itemized deduction without the burden of paying capital gains tax. So consider donating investments that you perceive to be close to their highest value before making a cash donation to take advantage of this benefit.

### »» Risk-free from market fluctuations

Once the funds are contributed, your tax deduction is immune from personal market risk. If the contributed securities rise in value, the gains realized are associated with the fund and stay tax-free for you. On the other hand, if the contributed securities decrease in value after contribution, your initial donation amount does not change.

### »» Donations are private

Sponsoring organizations are required to disclose the charities that receive donations, but are not required to report who is making the donation. Most funds will also allow you to make donations anonymously, if that is important to you.

### »» Perfect for a bunching strategy

Donor-advised funds provide an opportunity to place multiple years of donations into the fund for later distribution. This bunching technique can help you reach the itemization threshold in a chosen year. Once your charitable contributions are in the donor-advised fund, you can advise on the timing of distributions so you can continue to support your chosen charities over multiple years.

If a donor-advised fund is something you would like to explore, now is the time to start researching and planning. »»»

# FIRM HIGHLIGHTS

## NEW DESIGNATION



**Heather Thompson** has been awarded the Public Accounting Firm Manager (PAFM) designation by the CPA Firm Management Association's (CPAFMA). This designation recognizes Heather's knowledge and professional experience in public accounting practice management.

Heather joined CDS in 2004. She graduated from the College of St. Benedict in St. Joseph, MN. Heather was promoted to Firm Administrator in 2008 and admitted as Partner in 2018. Her focus areas include strategic planning, employee relations, staff recruitment and retention, special projects, Partner and staff development, and HR consulting for clients.

Heather is on the Board of Directors and serves as Secretary for the Willmar Area Community Foundation. She serves on the Ridgewater College's General Advisory Council. Heather is a 2017 graduate of the Vision 2040 Leadership Program. Heather received the 2013 West Central Tribune's Five Under 40 Award and the 2017 Exemplary Leadership Award from the Willmar Lakes Area Chamber of Commerce.

## NEW HIRES



**Ben Schlitter** joined CDS in our Willmar office as a Senior Accountant. Prior to CDS, he worked in public accounting for over three years. Ben graduated from St. Cloud State University in St. Cloud, MN with a Bachelor of Science degree in Accounting and a minor in Business

Management. His focus areas are non-profit and for profit auditing, tax planning and preparation, consulting, and bookkeeping.



**Erin Meyer** joined CDS in our Willmar office as an Administrative Assistant/Receptionist. Prior to CDS, she worked in client service for over three years. Erin graduated from Ridgewater College in Willmar, MN with her Administrative Assistant Associate in Arts degree. She received

her Microsoft Office Certificate in 2018. Erin is a member of the Willmar Lakes Area Chamber of Commerce's neXt Organization.

## STAFF PROMOTION



**Eric Holt** has been promoted to Senior Accountant. He joined CDS in 2016 in our Litchfield office. Eric graduated from St. Cloud State University in St. Cloud, MN with a Bachelor of Science degree in Accounting. His focus areas are governmental and non-profit auditing.

Eric is the Vice-Chairman of the Litchfield Area Community Foundation and is the Treasurer for the Meeker Area Food Shelf. He is a graduate of the 2017-2018 Leading Litchfield - Creating Area Leaders Program. Eric volunteers for his local church.

## It's Time for a Paycheck Checkup of Your Withholding

The Internal Revenue Service urges all taxpayers to use the Withholding Calculator at [IRS.gov](https://www.irs.gov) to do a "paycheck checkup." Changes made by the 2017 Tax Cuts and Jobs Act will affect 2018 returns that taxpayers will file in 2019. Your tax accountant at CDS can also run a tax estimate for you using your most recent paycheck stub to see if you need to make any year-end adjustments.



## Excited to Launch New CDS Logo

In October, CDS launched our new logo and an updated website at [www.cdscpa.com](http://www.cdscpa.com). The new brand was a collaborative effort with several team members from our five offices and staff from our affiliate companies, CDS Administrative Services, LLC and CDS Financial Services, LLC working together with our marketing team. At CDS, our clients are our number one priority! We're 80+ strong – all working for you!



CPAS & ADVISORS

## Communicating Electronically With Our Clients

Our firm is moving toward electronic communication with our clients so that we can quickly communicate with you about pertinent tax and legislative updates and company news and events. When you sign for your tax return, please verify or provide your email address to receive email notifications. If you have any questions or concerns about providing your email address, please contact us at (888) 388-1040.

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## CDS TimeKeeper

### 6 Key Benefits of Using an Automated Timekeeping Solution

- »» Less Unplanned Overtime
- »» Improved Compliance
- »» Reduced Time Theft
- »» Fewer Payroll Errors, Greater Efficiency
- »» Accurate Job Costing
- »» Real-time Management Oversight

Call us at (320) 214-2947 to learn more about our automated timekeeping solution, CDS TimeKeeper.

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**YEAR-END  
2018**

This *newsletter* is issued annually to provide you with information about minimizing your taxes. Do not apply this general information to your specific situation without additional details. Be aware that the tax laws contain varying effective dates and numerous limitations and exceptions that cannot be summarized easily. For details and guidance in applying the tax rules to your individual circumstances, please contact us.