

TAX PLANNING LETTER

Midyear 2019

Martin A. Darocha, CPA

Dear clients and friends,

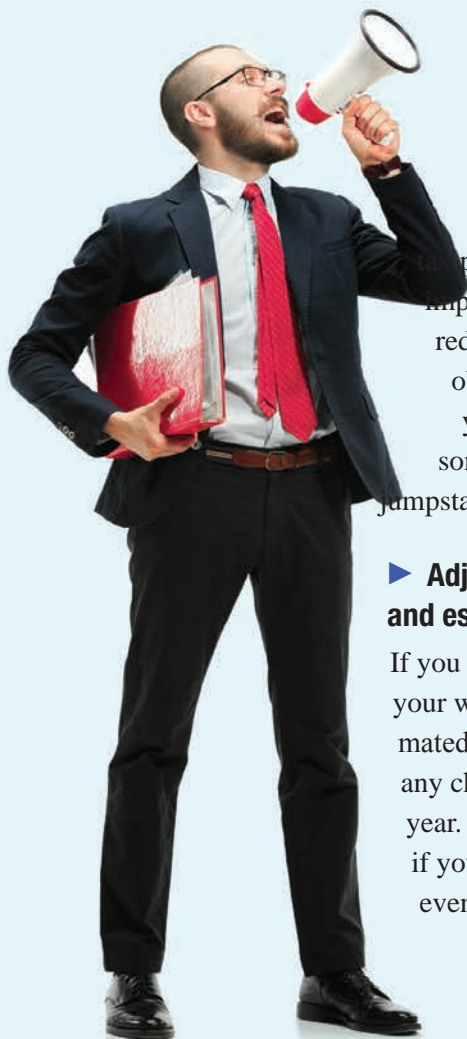
For better or worse, the past tax season provides you a clear picture of how the updated tax code impacts your situation. Now it's time to use this insight to ensure you're in the best position to effectively minimize your 2019 tax obligations.

Consider the actions you can take today that will make a difference to next year's tax bill. Have you adjusted your withholdings or boosted your retirement plan contributions? Are you saving the right records for the deductions you want to take? If you own a business, have you made any equipment purchases or updated your employee benefits? Address these questions now while there's still time to adjust your money-saving strategies for maximum results.

Call today to set up a midyear review so you can make the most of your tax-cutting efforts. And as always, feel free to share this newsletter with friends and associates who are interested in cutting their tax bills for 2019 and beyond.

Martin Darocha

Calling all taxpayers: Plan now and pay less



Procrastination is easy, especially when it comes to summertime planning. But waiting to implement strategies to reduce your 2019 tax obligations could cost you money. Here are some suggestions to help jumpstart your midyear review:

▶ Adjust your withholdings and estimated payments

If you haven't already, update your withholdings and estimated tax payments to reflect any changes needed since last year. Updates may be in order if you experience a big life event, such as marriage, divorce or a new job.

Overpaying your 2019 tax reduces the cash you have on hand throughout the year, and underpaying can lead to penalties and interest.

▶ Save more for retirement

When inflation adjustments kicked in at the beginning of the year, did you boost your retirement plan contributions? If not, you still have time to increase your contributions over the remainder of 2019.

Contributions to your 401(k) are made on a pre-tax basis, which means they're not included in your gross income. Taking advantage of this benefit can reduce your taxable income.

For 2019, you can deposit up to \$19,000 in your 401(k) and \$6,000 into your IRA (additional catch-up contributions apply if you're 50 or older). You can contribute to both a 401(k) and an IRA, though tax deductibility on IRA contributions may be limited, depending on your income.

▶ Deploy a gift-giving strategy

It's time to work on your 2019 gifting plan if you haven't started yet. As you plan, remember that the annual exclusion lets you make gifts up to \$15,000 in 2019 to any number of individuals without having to pay gift tax or file a gift tax return.

If you decide to gift money to a child or grandchild for education expenses, the \$15,000-per-person annual gift limitation does not apply if a payment is made directly to a qualifying educational institution. Not only are gift tax limitations removed, making substantial education payments in this manner could also reduce your taxable estate — ultimately reducing your exposure to estate taxes.

Don't forget that your direct education gift can be for a grandchild, niece, nephew or anybody else of any age, either related or unrelated.

▶ Consider the new kiddie tax rules

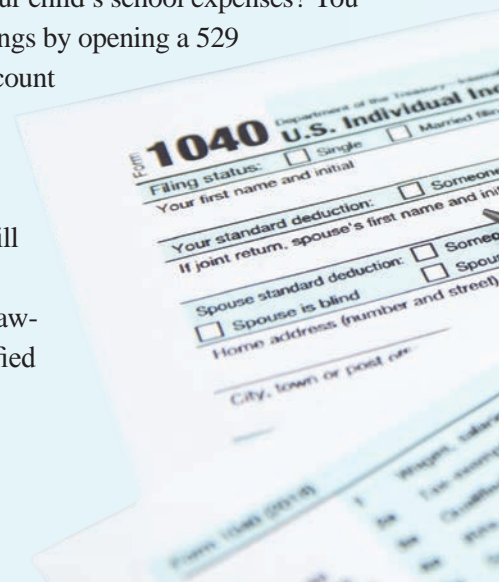
If your school-aged child works, recent changes to how their unearned income is taxed may mean you'll be dealing with higher tax rates. The tax is now based on the rates for estates and trusts instead of parents' top tax rate. So your child's unearned income tax rate gets much higher much sooner than in prior years when it could be taxed at parents' lower rates.

The best way to avoid a higher tax rate is to manage your child's unearned income at or below \$2,200 for 2019.

▶ Be tax-savvy about school savings

Are you currently setting aside money in a taxable account to pay for your child's school expenses? You could realize tax savings by opening a 529 education savings account instead. The sooner you do, the sooner earnings will grow tax-deferred. They will also generally be tax-free when withdrawals are used for qualified education expenses.

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► **Conduct an annual estate plan review**

The estate tax is still alive and well, so as part of your midyear review you should update your will and other estate documents. Remember that the federal estate tax applies to fewer people now, with the exemption at \$11.4 million per individual.

You can work to ensure you can take deductions by keeping great records throughout the year.

► **Safeguard your deductions**

Too often people are surprised when the IRS reduces their deductions. Don't let this happen to you. You can work to ensure you can take deductions by keeping great records throughout the year. You'll need proof if you want tax breaks for things like charitable contributions, gambling losses, vehicle costs and travel expenses. If you neglected to track these expenses at the beginning of the year, get going now.

There's still enough time to make tax changes that matter. Call today for help keeping your tax outlook as positive as possible. □

Add your business tax planning to your summer to-do list

A midyear tax review of your business can pay off in big ways. Consider these ideas:

✓ **Establish a retirement plan (if you don't already have one)**

Have you looked into setting up a SEP IRA, SIMPLE IRA or solo 401(k)? Examining your choices now gives you time to select the best plan and get the paperwork completed. Then you'll be set to make contributions as your cash flow allows — and to take the deduction on your 2019 tax return.

✓ **Hire your kids**

If your child is younger than 18 years old and works for your unincorporated business, there are no Social Security or Medicare taxes on your child's pay. Wages paid to your child are also deductible. Keep in mind that the compensation needs to be reasonable for the work actually performed.

✓ **Review your marketing metrics**

One of the best techniques to tell if your marketing efforts are paying off is to measure your cost per new customer and cost per order over time. If you don't have a plan to consistently review your metrics, make one now. Consider reviewing them on a monthly basis.

✓ **Deduct equipment purchases**

Depending on your situation, you may be able to take advantage of tax savings if you purchase business equipment before the end of the year. You can expense up to \$1.02 million purchases of qualified equipment this year.

✓ **Track your business driving**

You may be able to deduct mileage expenses for driving related to your business. For 2019, the rate for business-related mileage is 58 cents per mile. You can deduct actual costs for parking fees and tolls in addition to mileage. Keep detailed records to substantiate your deduction.

✓ **Check your employee benefits**

Do you offer health benefits to your employees? If so, look into tax-advantaged plans such as health savings accounts, flexible spending accounts and health reimbursement arrangements. These plans can reduce your taxes and help control your benefit costs. □



Fund retirement or your child's education?

Should you prioritize your own future over your child's education? This is an emotionally charged question that leads many parents to fund college at the expense of their own retirement. However, with proper planning, you may be able to fund your retirement and still offer financial support for college.

■ Your retirement savings come first

It can be challenging to prioritize funds for an event that may be decades away over more pressing financial matters, like your child's education. Deciding to cut back savings or allocate funds for other purposes can be risky, however, especially if you're banking on financial resources that may not be available when you need them later on.

One of the best ways you can help your child is to ensure you won't be a financial burden on them in the future. That means prioritizing saving for your retirement now — not holding off retirement contributions in lieu of paying for their college expenses.

Once you retire, your savings often becomes your main source of income. You'll most likely depend on it to live, eat and pay for medical expenses that aren't covered by Medicare. Keep in mind that nearly two-thirds of Americans retire before they reach 65, according to a poll from the Transamerica Center for Retirement Studies. You may end up using your funds to cover your basic needs for as much as 20 or even 30+ years.

Education for your children is important, but it's secondary to your long-term wellbeing.

■ Tips to save for retirement *and* college

While building your nest egg takes priority, there are also several options to help financially support your child's college education. Take a look at the following suggestions to save for both:

- **Take advantage of catch-up contributions.** Once you've turned 50, you can start contributing more money to your retirement accounts. In 2019, you can save up to \$25,000 in a 401(k) and up to \$7,000 in an IRA.

- **Use your time wisely.** Start early to use time to help grow the value in your retirement and education savings accounts. Take advantage of employer-provided 401(k) or similar retirement programs, especially if there is an employer match. After that, look into a Coverdell Education Savings Account and a 529 plan to maximize your education savings potential.
- **Consider grants, scholarships and finance programs.** Start researching early, as there are college scholarships available for children as young as 5 years old!
- **Research all college options.** In-state public colleges are generally less expensive than private or out-of-state colleges. If an out-of-state college is preferred, check to see if they have reciprocity agreements with your home state.
- **Look into work-study programs.** Many schools provide part-time jobs for students to help them pay for school while keeping up with their studies. These programs vary based on a student's financial needs.

■ Keep in mind: Assets in retirement accounts don't affect financial aid

When you complete the Free Application for Federal Student Aid (FAFSA), most money and assets owned by parents impact the student's eligibility for financial aid. However, the value of retirement accounts (including 401(k)s, Roth IRAs and traditional IRAs) are often not counted when determining the expected family contribution.

With proper planning, there are options to help you prioritize saving for retirement and still financially support your child's education. Call if you'd like to discuss the most beneficial and tax-savvy options for your situation. □



Midyear 2019: 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. ©MC

For details or assistance, call Martin Darocha • (610) 775-7655