KORBITZ FINANCIAL PLANNING

Your goals. Your plan. Your terms.

After Tax Season Tax Letter

A short list of recent tax issues.

FOUND MONEY: IF YOU LIVE IN WISCONSIN, AND HAVE KIDS UNDER 18

The Wisconsin legislature passed, and the Governor of Wisconsin signed an unusual piece of legislation providing a "sales tax rebate" to Wisconsin residents who have a "qualified child" who is defined as:

- A child under age 18 for all of 2017 (e.g. they had not yet turned 18 as of 12/31/2017)
- A child who is your dependent
- A child who is a US citizen
- A child who was a resident of Wisconsin on 12/31/2017

If you have a child who meets those requirements, the state wants to give you $100 per child. The catch is that you need to apply for the rebate during the period **May 15, 2018 through July 2, 2018.** To claim the rebate go to www.childtaxrebate.wi.gov during this 6 week time period. This is not something that I can claim for you, you will need to file for it on your own. Why the strange filing period and why not put this on the 2018 tax return? I can only imagine that the August primary election and November general election had something to do with it.

WISCONSIN SALES TAX HOLIDAY

The State of Wisconsin will also be holding a "sales tax holiday" from August 1st through 5th. During this period the following items are exempt from Wisconsin sales and use tax:

- Clothing purchased for $75 or less per item
- School supplies purchased for $75 or less per item
- Computer for personal use purchased for $750 or less per computer
- School computer supplies for personal use purchased for $250 or less per item

If you happen to need to purchase some of these items this summer, you can do so without paying Wisconsin sales tax if you purchase during this short time frame.

TAX SEASON REVIEW

Tax returns (or extensions) for 2017 returns were due on April 17th. Having just completed quite a few returns, and a handful of extensions, I thought I would pass along some lessons learned and observations from this tax season and provide you with a brief preview of 2018 tax returns.

One issue that came up often was related to the number of Form 1099-Qs that were issued. This is a form that reports distributions from College Tuition Plans (aka 529 Plans, or in Wisconsin, EdVest.) Normally the distribution reported on these forms is offset by college expenses incurred, thus resulting in no income. The issue that has come up this year is that we have seen 1099-Qs for BOTH the parent and the student, depending upon how the money was distributed. The problem that this creates is that often students do not file tax returns. When the IRS sees a 1099-Q saying that $XX,000 was paid from a 529 plan to the student, and there is no tax return filed, the IRS may send a notice asking about the distribution. I have responded to these notices with a short letter to the IRS saying, "no return was filed because all of the proceeds were offset by qualified higher education expenses" and that has clarified the issue.

Another issue has been confusion concerning the timing of payments made to IRA accounts, Health Savings Accounts, and EdVest accounts. These are all accounts which can be funded up to April 15th (April 17th this year) AND be credited to the prior year. My recommendation is for clients to make every effort to fund these types of accounts during the tax year that the contribution applies to (in other words, fund these accounts by December 31st, even though you can wait until April 15th), in order to reduce the amount of time it takes to figure out which year a contribution applies to. There are cases where a client has not funded one of these accounts, and I will find that out after December 31st . I will then suggest that the client fund the account for the prior year. This should be the exception, rather than the rule.

When analyzing what tax returns may look like in 2018, there are several positive outcomes that I have seen:

- The Alternative Minimum Tax (AMT) will go away for most people.
- Tax rates generally are going down (except for single taxpayers with income of $150,000-$400,000, who will see an increase in their tax rate.)
- Credits available for children under age 17 help taxpayers with incomes up to about $400,000.

More people than I expected will benefit from taking the standard deduction, rather than taking itemized deductions, going forward. Remember, you deduct the greater of your itemized deductions or standard deductions. For my client base, roughly 80% will use the standard deduction going forward.

Who will be the winners and losers from the recent tax legislation in 2018 and beyond?

- Taxpayers with incomes below $200,000 will generally see a decrease in their tax bill, but it will be nominal.
- Taxpayers with incomes of $200-400,000 are generally winners due to the effective elimination of the Alternative Minimum Tax (AMT.)
- Taxpayers with children under age 17 are generally winners, due to the $2,000 per child tax credit.
- Single taxpayers with income between roughly $150,000 and $400,000 will see their marginal tax rate go up, but they may benefit from no AMT, and thus it is likely to be a draw.
- The highest income taxpayers (over $1,000,000) will be losers under the tax bill because they generally pay high amounts of real estate and income taxes, and those are limited on a combined basis (real estate and income taxes) to a $10,000 deduction.

HEALTH SAVINGS ACCOUNT LIMITATION CHANGES

The maximum amount you can contribute to a Health Savings Account each year is determined by applying an inflation adjustment to the prior year contribution limit. In May, 2017 the IRS announced that the limitation for those with FAMILY coverage would be $6,900 for 2018. Congress, in December of 2017, changed the formula for the inflation adjustments for HSA contributions. The IRS then announced on March 5, 2018 that the 2018 contribution limit would be reduced to $6,850, based upon the new formula passed by Congress in December. Well, some people, myself included, had ALREADY funded their HSA for 2018 at the higher amount. The IRS realized that this was creating more than a few problems for taxpayers, so on April 27th they reversed course, announcing that the higher $6,900 limit will be in effect for 2018. So, for now, it appears that those with family health insurance and an HSA can contribute $6,900 for 2018 for the "under 55" contribution. Higher limits apply for those over age 55, with each taxpayer age 55 or older able to contribute an additional $1,000.

CONCLUSION

I hope this gives you a sense of what the 2017 tax season looked like and provides you with a preview of what is to come in 2018.