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To Our Clients and Friends:

2018 YEAR-END INCOME TAX PLANNING FOR INDIVIDUALS

INTRODUCTION

With year-end approaching, this is the time of year we *"normally"* suggest possible year-end tax strategies for our clients. However, from a tax-planning standpoint, 2018 is not a *"normal"* year. Late in 2017, Congress passed the **"Tax Cuts and Jobs Act" (TCJA)** which represents the most substantial tax reform legislation since 1986. Since the vast majority of its provisions **are first effective in 2018,** year-end planning is particularly challenging in light of the many new changes we must consider for the first time between now and the end of the year. For example, 2018 will be the first year we must consider changes under TCJA that: Reduce the overall tax rates for a majority of individuals; Enhance the Child Tax Credit (including an entirely new $500 Family Tax Credit); Substantially increase the Standard Deduction; Eliminate the Personal Exemption deduction; Place new limits on several Itemized Deductions (e.g., home mortgage interest and state and local tax deductions); Repeal certain deductions (e.g., unreimbursed employee business expenses, moving expenses); Substantially reduce the impact of the Alternative Minimum Tax (AMT) on many individuals; Provide a new 20% Deduction for individuals owning interest in businesses that generate qualified business income; and more!

Despite this backdrop of significant tax changes, many taxpayers should still benefit from traditional year-end tax planning strategies that include deferring *"income"* to a later year and accelerating *"deductions"* into the current year. Consequently, this letter is intended to remind you of the time-honored year-end tax planning techniques you should be considering. We also identify new wrinkles that the recent tax changes may bring to these strategies. **Caution!** Over the last few months, the IRS has been releasing guidance on various TCJA provisions. However, as we complete this letter, we are still waiting for further IRS clarifications on several important provisions. We closely monitor these IRS releases on an ongoing basis. Please call our firm for the latest IRS notifications and announcements regarding any TCJA provision that we do not address in this letter.

Be Careful! We suggest you call our firm before implementing any tax planning technique discussed in this letter. You cannot properly evaluate a particular planning strategy without calculating your overall tax liability with and without that strategy. This letter contains ideas for Federal income tax planning only. **State income tax issues are not addressed.**

MORE WILL BENEFIT FROM INCREASED CHILD TAX CREDIT AND NEW $500 FAMILY CREDIT

Increased Child Tax Credit. For 2017, subject to certain income phase-out thresholds, individuals were allowed a maximum Child Tax Credit of $1,000 for each **"Qualifying Child"** who **had not reached age 17** by the end of the tax year. **Starting in 2018 and through 2025,** the recently-enacted **Tax Cuts And Jobs Act ("TCJA")** doubles the previous $1,000 Child Tax Credit for each **"Qualifying Child"** to **$2,000,** while also significantly increasing the income level where the credit begins phasing out. Under TCJA, the $2,000 Child Tax Credit begins phasing out as an individual's modified adjusted gross income (MAGI) **exceeds $400,000** on a **Joint Return** (up from the previous $110,000), or **exceeds $200,000 for Singles** (up from the previous $75,000). For purposes of TCJA's enhanced Child Tax Credit, the term **"Qualifying Child"** has the same definition as under prior law (i.e., a child who meets certain residency, age, relationship, and support tests). **Tax Tip!** Due to the doubling of the maximum Child Tax Credit (from $1,000 to $2,000) and the substantial increase in the income phase-out thresholds, the Child Tax Credit will be more valuable and much more widely available than under prior law. **Caution!** In order to claim the Child Tax Credit of up to $2,000, TCJA requires that the Qualifying Child have a **qualified Social Security Number (SSN) before the return's filing due date.** The child's ITIN or ATIN will not satisfy this requirement.

- **Maximum "Refundable" Child Tax Credit Increased From $1,000 to $1,400.** In addition to increasing the maximum Child Tax Credit up to $2,000, TCJA allows **up to $1,400** (up from $1,000) of the Child Tax Credit to be "refundable" to the extent of 15% of the taxpayer's earned income in excess of $2,500. **Please note** that a **"refundable"** credit generally means to the extent the credit exceeds the taxes you would otherwise owe with your individual income tax return without the credit, the IRS will send you a check for the excess.

New $500 Family Tax Credit. TCJA creates a **new non-refundable "Family Tax Credit" of up to $500** for each person the taxpayer could have claimed as a dependent under prior law but who does not qualify for the $2,000 Child Tax Credit. This credit will generally be available for: **1)** a "Qualifying Child" who does not qualify for the $2,000 Child Tax Credit because the child is 17 or older, and **2)** a "Qualifying Relative." Generally, **a "Qualifying Relative"** is a person who is not a Qualifying Child but who meets certain residency, gross income, support, and relationship tests. This $500 Family Tax Credit is added to any other Child Tax Credits and the total credits begin phasing out once a taxpayer's MAGI **exceeds $400,000 on a joint return** or **$200,000 for singles.**

THE ALTERNATIVE MINIMUM TAX (AMT) WILL HIT FAR FEWER TAXPAYERS AFTER TCJA

Changes To The Alternative Minimum Tax For Individuals. Although TCJA **retains** the **"Alternative Minimum Tax"**(AMT) for individual taxpayers, **starting in 2018 and through 2025,** it also offers new relief by: **1)** Increasing the AMT exemption amounts for joint filers to $109,400 (up from $86,200) and for single filers to $70,300 (up from $55,400), and **2)** Increasing the amount of alternative minimum taxable income where the AMT exemption amount begins to phase out for joint filers to $1 million (up from $164,100) and for single filers to $500,000 (up from $123,100). These amounts will be indexed for inflation for future years. **Planning Alert!** Due to these and other changes under TCJA, it has been estimated that the number of individuals subject to AMT will drop from approximately 5 million down to a level closer to 200,000.

DON'T OVERLOOK THE NEW 20% DEDUCTION FOR CERTAIN QUALIFIED INCOME

Overview. One of the most significant and far-reaching provisions under TCJA is the new provision that may allow certain individuals to qualify for a **20% Deduction** with respect to **"Qualified Business Income," "Qualified REIT Dividends,"** and **"Publicly-Traded Partnership Income."** This deduction is available **for tax years beginning after 2017 through 2025.** The 20% Deduction does not reduce your adjusted gross income (AGI) or impact your calculation for self-employment tax. Instead, the deduction simply reduces your Taxable Income (regardless of whether you itemized deductions or claim the standard deduction). In other words, the 20% Deduction is allowed **in addition to** your itemized deductions or your standard deduction.

- **<u>What Type Of Income Qualifies For The 20% Deduction?</u>** Generally, the following types of income are eligible for the 20% Deduction: Qualified REIT Dividends, Qualified Publicly-Traded Partnership Income, and Qualified Business Income. The rules for determining the 20% Deduction for Qualified REIT Dividends and Publicly-Traded Partnership Income are relatively straightforward. However, the 20% Deduction for **"Qualified Business Income"** is expected to have the biggest impact on the greatest number of individual taxpayers, and in certain situations can be complicated and tricky.

- **<u>Who Could Qualify For The 20% Deduction With Respect To "Qualified Business Income" (QBI)?</u>** Taxpayers who may qualify for the 20% Deduction for "Qualified Business Income" (QBI) generally include taxpayers who report certain types of business income such as: Individual owners of S corporations and partnerships; Sole Proprietors; Trusts and Estates; and Certain beneficiaries of trusts and estates.

- **<u>Planning Alert!</u>** It is not feasible to provide a thorough discussion of the 20% Deduction with respect to **Qualified Business Income (QBI)** in this letter. However, you need to be aware that if you own an interest in a business operation as a sole proprietor, as an S corporation shareholder, or as a partner in a partnership, you could very likely be a good candidate for the 20% Deduction for QBI. Moreover, although taxpayers at all income levels may qualify for the 20% Deduction, it will be easier to qualify for the 20% Deduction for QBI for sole proprietors, S corporation shareholders, or partners in a partnership if their 2018 "Taxable Income" is $157,500 or below ($315,000 or below if filing a joint return). Consequently, if you own an interest in one of the businesses listed above and you expect your taxable income to be over $157,500 or $315,000 if filing a joint return, please call our Firm because you may have an additional tax incentive to defer taxable income and/or increase deductions that cause your **Taxable Income for 2018** to **drop to $157,500** or less or **$315,000 or less if filing jointly.**

<u>POSTPONING TAXABLE INCOME MAY SAVE TAXES</u>

Generally, deferring taxable income from 2018 to 2019 may reduce your income taxes if your effective income tax rate for 2019 will be lower than your effective income tax rate for 2018. For example, the deferral of income could cause your 2018 taxable income to fall below the thresholds for the highest 37% tax bracket (i.e., $600,000 for joint returns; $500,000 if single). In addition, if you have income subject to the 3.8% Net Investment Income Tax (3.8% NIIT) and the income deferral reduces your 2018 modified adjusted gross income (MAGI) below the thresholds for the 3.8% NIIT (i.e., $250,000 for joint returns; $200,000 if single), you may avoid this additional 3.8% tax on your investment income. **<u>Planning Alert!</u> Starting in 2018,** TCJA temporarily reduced the tax rates on virtually all levels of income, including reducing the "highest" income tax rate from 39.6% to 37%. These lower rates are not scheduled to expire until after 2025. If, after considering all factors, you believe deferring taxable income into 2019 will save you taxes, consider the following strategies:

<u>Deferring Self-Employment Income.</u> If you are a self-employed individual using the cash method of accounting, consider delaying year-end billings to defer income until 2019. **<u>Planning Alert!</u>** If you have already received the check in 2018, deferring the deposit of the check does not defer the income. Also, you may not want to defer billing if you believe this will increase your risk of not getting paid.

<u>Using Installment Sales To Defer Taxable Gain.</u> If you plan to sell certain appreciated property in 2018, you might be able to defer the gain until later years by taking back a promissory note instead of cash. By taking a promissory note, you may qualify for the "installment method" which allows you to pay tax on the gain only as you collect payments on the note. Qualifying for the *installment method* not only defers the time you must pay the tax on the gain, but could also defer all or a portion of the gain into later years when your expected tax rate is less than your 2018 tax rate. For example, spreading the gain over several years could reduce the seller's income tax in the year of sale (and possibly subsequent years) by reducing the tax rates on long-term capital gains below the top 20% capital gains rate. **Caution!** You may not want to take back a promissory note in lieu of cash if you believe this reduces your chances of getting paid. Moreover, since TCJA's lower tax rates are currently scheduled to expire after 2025, you should pay careful attention to an installment sale arrangement that would defer gain beyond 2025 when your rates might be higher.

Planning For Required Distributions From IRAs. Generally, once you reach age 70½, you are required to begin taking "*Required Minimum Distributions*" (RMDs) from your IRA or qualified retirement plan account. A 50% penalty applies to the excess of the *"Required Minimum Distribution"* (RMD) over the amount actually distributed. You might consider the following ideas concerning RMDs which could save you overall taxes:

- **IRA Owners Who Attain Age 70½ During 2018.** If you reach age 70½ at any time during 2018, you must begin distributions from a traditional IRA account ***no later than April 1st of 2019.*** In addition, if you wait until 2019 to take your first payment, you will still be required to take your second RMD no later than December 31, 2019, which will cause you to *"bunch"* two payments into 2019. This *"bunching"* of the first two annual payments into one tax year (2019) could cause you to pay higher overall taxes if the bunching puts you in a higher tax bracket for 2019 than for 2018. However, if you expect your 2019 tax rate on the "bunched" payments to be lower than your tax rate on the first payment, if made in 2018, it could save you overall taxes to "bunch" the 2018 and 2019 RMDs into 2019.

- **Individuals Making Charitable Contributions Who Are Age 70½ Or Older.** If you have reached **age 70½** and you are planning to make charitable contributions before the end of 2018, there is a special tax break that could apply to you. For the past several years, we have had a popular rule that allows taxpayers, who **have reached age 70½,** to have their IRA trustee transfer **up to $100,000** from **their IRAs directly to a qualified charity,** and **exclude the IRA transfer from income.** The IRA transfer to the charity also counts toward the IRA owner's "Required Minimum Distributions" (RMDs) for the year. For those who wish to make charitable contributions, this tax break effectively allows a qualifying taxpayer to exclude all or a portion of their otherwise taxable RMDs from taxable income. **Tax Tip.** Starting in 2018, this planning technique could be even more valuable because TCJA increased the standard deduction for individuals filing a joint return to $24,000 (up from $12,700 in 2017) and to $12,000 for singles (up from $6,350 for 2017). Thus, far fewer individuals will gain a tax benefit by itemizing their deductions but instead will gain a greater tax benefit by taking the standard deduction. However, using this technique for a charitable contribution will provide an individual with this tax benefit **in addition to** the full benefit of the standard deduction (for those taking the standard deduction).

TAKING ADVANTAGE OF DEDUCTIONS

Traditional year-end planning includes accelerating deductible expenses into the current tax year. This tactic could be particularly beneficial: **1)** If you expect your tax rate to be higher in 2018 than 2019, and/or **2)** The accelerated deductions cause your 2018 income to drop below certain income-sensitive thresholds allowing you to qualify for other tax breaks. For example, as discussed previously, individuals who report Qualified Business Income will generally find it much easier to qualify for the new 20% Deduction with respect to that Qualified Business Income if their 2018 taxable income does not exceed $315,000 if filing a joint return ($157,500 if single). **Caution!** Evaluating which, if any, deductions you should accelerate into 2018 has become more complicated because, starting in 2018, TCJA has: **1)** Placed new limits and restrictions on several popular deductions, and **2)** Repealed certain other deductions altogether. In the following segments, we discuss selected deductions you might consider accelerating into 2018, and the changes to those deductions caused by TCJA.

“Above-The-Line” Deductions Can Generate Multiple Tax Benefits. So-called **“above-the-line”** deductions reduce both your “adjusted gross income” (AGI) and your “modified adjusted gross income” (MAGI), while **“itemized”** deductions (i.e., below-the-line deductions) do **not** reduce either AGI or MAGI. Deductions that reduce your AGI (or MAGI) can generate multiple tax benefits, such as possibly freeing up other deductions (and tax credits) that phase out as your AGI (or MAGI) increases (e.g., Certain IRA Contributions, Certain Education Credits, Adoption Credit, Child Tax Credit, New $500 Family Tax Credit, etc.). If you think that you could benefit from accelerating ***“above-the-line”*** deductions into 2018, consider the following:

- **Identifying “Above-The-Line” Deductions.** **“Above-the-line”** deductions include: Deductions for IRA or Health Savings Account (HSA) Contributions; Health Insurance Premiums for Self-Employed Individuals; Qualified Student Loan Interest; Qualifying Alimony Payments; Business Expenses for a Self Employed Individual; and Un-Reimbursed Employee Business Expenses. **Caution!** TCJA made significant changes to the above-the-line deductions for **“Moving Expenses” and “Alimony Payments,”** as follows:

- **Moving Expenses.** Before TCJA, the deduction for qualified **business-related “Moving Expenses”** was an above-the-line deduction and an employer’s reimbursement of an employee’s qualified moving expenses was a tax-free fringe benefit. **Starting in 2018 through 2025,** except for certain active members of the Armed Forces, TCJA generally **suspends** the deduction for **“Moving Expenses”** and also suspends the income exclusion of employer-reimbursed moving expenses.

- **Alimony Payments.** Currently, an individual making qualified alimony payments is allowed an “above-the line” deduction for the payments and the recipient of the payments must include the payments in income. **Effective for “Divorce or Separation Instruments” executed after 2018,** TCJA **repeals altogether** the deduction for **alimony payments,** and the alimony payments **will no longer be taxable to the payee.** Alimony paid under a divorce instrument **executed before 2019** will generally be grandfathered under the existing rules. **Planning Alert!** Individuals contemplating divorce must **“execute”** a **“Divorce or Separation Instrument” before 2019** to ensure that any alimony payments will be deductible. Individuals who anticipate receiving alimony payments can avoid being taxed on those payments if they delay **“executing”** any **“Divorce or Separation Instrument”** until **after 2018.**

- **Accelerating “Above-The-Line” Deductions.** As a cash method taxpayer, you can generally accelerate a 2019 deduction into 2018 by *“paying”* it in 2018. *“Payment”* typically occurs in 2018 if a check is delivered to the post office, if your electronic payment is debited to your account, or if an item is charged on a *third-party credit card* (e.g., Visa, MasterCard, Discover, American Express) in 2018. **Caution!** If you post-date the check to 2019 or if your check is rejected, no payment has been made in 2018. **Planning Alert!** The IRS says that prepayments of expenses applicable to periods beyond 12 months after the payments are not deductible in 2018.

Be Careful With Employee Business Expenses After TCJA! Before TCJA, certain “miscellaneous itemized deductions” were allowed only to the extent they exceeded in the aggregate 2% of the taxpayer’s adjusted gross income (AGI). **Starting in 2018,** TCJA not only repeals this 2% reduction rule, but also **suspends through 2025** any deduction for “Miscellaneous Itemized Deductions” that were subject to the 2% of AGI reduction. Two important examples of the expenses that are suspended include: **Un-reimbursed employee business expenses;** and, Expenses attributable to the **management of investments.** **Planning Alert!** Although **“un-reimbursed”** employee business expenses are **not deductible after TCJA,** employee business expenses that are **reimbursed** under the employer’s qualified Accountable Reimbursement Arrangement are not taxable to the employee.

“Itemized” Deductions. Although **“itemized”** deductions (i.e. below-the-line deductions) do **not** reduce your AGI or MAGI, they still may provide valuable tax savings. However, **starting in 2018 and through**

2025, TCJA substantially increases the "Standard Deduction" to the following levels: Joint Return - $24,000 (up from $12,700 in 2017); Single - $12,000 (up from $6,350 in 2017); and Head-of-Household - $18,000 (up from $9,350 in 2017). Moreover, TCJA not only increases the amount of the Standard Deduction, it also repeals or places new limits on several popular itemized deductions. Consequently, it is anticipated that far fewer individuals will "itemize" deductions under TCJA, but will instead take the Standard Deduction. The following highlights the impact of TCJA on several of the most popular itemized deductions:

- **Changes To Charitable Contributions.** TCJA retains the charitable contribution deduction with the following changes: **1) From 2018 through 2025,** the 50% AGI limitation under prior law for cash contributions to public charities and certain other organizations **is increased to 60%,** and **2) Starting in 2018** (with no sunset date), a charitable contribution deduction is no longer allowed for contributions made to colleges and universities in exchange for the contributor's right to purchase tickets or seating at an athletic event (prior law allowed the taxpayer to deduct 80% as a charitable contribution). **Planning Alert!** If you think your itemized deductions this year could likely exceed your Standard Deduction of $24,000 if filing jointly ($12,000 if single) and you want to accelerate your charitable deduction into 2018, please note that a charitable contribution deduction is allowed for 2018 if the check is mailed **on or before December 31, 2018,** or the contribution is made by a credit card charge in 2018. However, if you merely give a note or a pledge to a charity, no deduction is allowed until you pay the note or pledge.

- **Medical Expense Deductions.** TCJA generally retains the existing rules for medical expense deductions. However, for **tax years beginning in 2017 and 2018,** for both regular tax purposes and AMT purposes, a taxpayer may deduct medical expenses to the extent they **exceed 7.5%** (down from 10%) of his or her AGI. **The 7.5%** threshold **reverts back to 10% after 2018. Planning Alert!** If you think your itemized deductions this year could likely exceed your standard deduction of $24,000 if filing jointly ($12,000 if single), it could save you taxes in the long run if accelerating elective medical expenses (e.g., braces, new eye glasses, etc.) allows you to exceed the 7.5% threshold for 2018. If you wait until 2019 to incur the medical expenses, you will be facing a 10% threshold.

- **$10,000 Cap On The "State And Local" Tax Deduction. From 2018 through 2025,** the aggregate itemized deduction for state and local real property taxes, state and local personal property taxes, and state and local income taxes (or sales taxes if elected) is **limited to $10,000** ($5,000 for married filing separately). **Planning Alert!** Deductions continue to be allowed for state, local, and foreign **"property"** or **"sales"** taxes, and **foreign income, war profits,** or **excess profits taxes** paid or incurred in carrying on the taxpayer's **trade or business** (e.g., taxpayer's Schedule C, Schedule E, or Schedule F operations) or in connection with the taxpayer's production of income.

- **New Limits On The Home Mortgage Interest Deduction.** Before TCJA, individuals were generally allowed an itemized deduction for home mortgage interest: **1)** Paid on up to $1,000,000 ($500,000 for married individuals filing separately) of **"Acquisition Indebtedness"** (i.e., funds borrowed to purchase, construct, or substantially improve your principal or second residence and secured by that residence), and **2)** Paid on up to $100,000 of **"Home Equity Indebtedness"**(i.e., funds borrowed that do not qualify as "Acquisition Indebtedness" but are secured by your principal or second residence - regardless of how the funds are used). TCJA makes the following changes:

  Reduction In Cap For "Acquisition Indebtedness." For **Acquisition Indebtedness incurred after December 15, 2017,** TCJA reduces the dollar cap for "Acquisition Indebtedness" **from $1,000,000 to $750,000** ($375,000 for married filing separately) for **2018 through 2025.** There are two **"grandfather"** rules that allow you to use the $1,000,000 cap for: **1)** Any "Acquisition Indebtedness" you **incurred on or before December 15, 2017,** or **2)** Any Acquisition Indebtedness that was incurred pursuant to a binding written contract entered into **before December 15, 2017** to close on the purchase of a **"principal residence"** before **January 1, 2018,** provided the individual purchased that residence

before April 1, 2018. **Caution!** The $750,000 cap that generally applies to "Acquisition Indebtedness" incurred after December 15, 2017 is reduced by the outstanding balance of any grandfathered "Acquisition Indebtedness." **Planning Alert!** Subject to limited exceptions, if a taxpayer incurred Acquisition Indebtedness on or before December 15, 2017 (i.e., grandfathered Acquisition Indebtedness), the refinancing of that indebtedness after December 15, 2017 will still be entitled to the $1,000,000 cap (to the extent of the outstanding balance of the original Acquisition Indebtedness on the date of the refinancing).

Suspension Of Interest Deduction For "Home Equity Indebtedness." For 2018 through 2025, taxpayers may not deduct interest with respect to "Home Equity Indebtedness" (i.e., up to $100,000 of funds borrowed that do not qualify for "Acquisition Indebtedness" but are secured by your principal or second residence). **Caution!** Unlike the interest deduction for "Acquisition Indebtedness," TCJA **does not grandfather** any interest deduction for **"Home Equity Indebtedness"** that was **outstanding before 2018.** **Planning Alert!** Loans that have been labeled by your lender as a home equity loan, home equity line of credit (HELOC), or second mortgage on a Qualified Residence can be classified as "Acquisition Indebtedness" if the borrowed funds were used to **"substantially improve"** your Qualified Residence that secures the loan. Consequently, the interest on this type of home improvement loan continues to be deductible after 2017, subject to the $1,000,000 or $750,000 loan limitation, whichever applies. **Tax Tip!** If you think your itemized deductions this year could likely exceed your Standard Deduction, paying your January, 2019 qualifying home mortgage payment **before 2019** should shift the deduction on the interest portion of that payment **into 2018.**

SELECTED MISCELLANEOUS YEAR-END PLANNING CONSIDERATIONS

Consider Increasing Withholding If Facing An Estimated Tax Underpayment Penalty. If you have failed to pay sufficient estimated taxes during 2018 potentially causing an estimated tax underpayment penalty, **increasing your withholdings before the end of 2018** may solve the problem. Any income tax withholding (including withholdings at the end of 2018 from a year-end bonus or an IRA distribution) is generally deemed paid in quarterly installments by each quarter's estimated tax payment due date (i.e., April 17, 2018; June 15, 2018; September 17, 2018; and January 15, 2019). Therefore, amounts **withheld on or before December 31, 2018** may reduce or eliminate your penalty for underpaying estimated taxes. **Planning Alert!** If you take an IRA distribution and have taxes withheld from the distribution to avoid an underestimate penalty, you must roll the distribution (unreduced by the withheld taxes) into an IRA within 60 days of the distribution to avoid paying taxes (and possibly a 10% penalty) on the IRA distribution. You are allowed to take a distribution from an IRA and roll it over into a new IRA, **only one time every 12 months** (beginning with the date you received the distribution). **Caution!** If you used this withholding technique last year by having taxes withheld from an IRA distribution in 2017, **be very careful** that you do not violate the **one-rollover-per-year** rule if you plan to use this technique again this year.

The "Premium Tax Credit" Under The Affordable Care Act (ACA) Is Not Repealed. TCJA **did not repeal** the refundable **"Premium Tax Credit" or "PTC"** under ACA for eligible low-and-middle income individuals who purchase health insurance through a State or Federal Exchange. The PTC is generally paid **in advance directly to the insurer** ("Advance Payments").

- **Certain Individuals May Be Required To Pay Back Some Or All Of Their "Advance Payments."** Any individual who received Advance Payments for 2018 **is required to file** a **2018 income tax return** to reconcile: **1)** The amount of the **"actual"** PTC (based on the individual's **"actual"** 2018 Household Income) with **2)** The **Advance Payments** of the PTC (which were determined by the Exchange based on the individual's **"projected"** 2018 Household Income). If an individual's Advance Payments for 2018 exceed the "actual" PTC, the **excess must be paid back** on the **2018 tax return** as an **"additional tax liability." Caution!** Recent Tax Court cases have held that this excess must be paid back as an additional tax liability even where the taxpayers made a good faith effort to comply with requirements for Advance Payments of the PTC. **Planning Alert!** The amount of the 2018 excess payment that must be repaid as an additional tax liability **is capped if** the individual's **"actual"** 2018 Household Income is **less than 400%** of the Federal Poverty Line (FPL) for the individual's family size. In some cases, an individual whose **"actual"** 2018 Household Income is projected to be 400% or more of the FPL may be able to trigger these dollar caps by reducing his or her 2018 Household Income **below** 400% of the FPL. **For example,** an individual might make a contribution to an IRA (if eligible to do so) in order to reduce his or her 2018 Household Income to less than 400% of the 2018 FPL for the individual's family size. Taking this step would cap the amount of the individual's excess payments required to be paid back as an additional tax liability to **$1,300 for single individuals** and **$2,600 for others.**

ESTATE AND GIFT TAX

Federal - top tax rate of 40%. 2018 estate tax exemption is $11.18 million indexed for inflation through 2025. Beginning in 2026, the exemption will revert back to $5 million.

Connecticut - top tax rate of 12%. The estate tax exemption amounts are as follows:

2018 - $2.6 million
2019 - $3.6 million
2020 - $5.1 million
2021 - $7.1 million
2022 - $9.1 million
2023 - Federal exclusion amount

FINAL COMMENTS

Please contact us if you are interested in a tax topic that we did not discuss. Tax law is constantly changing due to new legislation, cases, regulations, and IRS rulings. Our Firm closely monitors these changes. In addition, please call us before implementing any planning ideas discussed in this letter, or if you need additional information. **Note!** The information contained in this material should not be relied upon without an independent, professional analysis of how any of the items discussed may apply to a specific situation.

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