



Newsletter

JUNE 2018

Freddi & Associates Inc. would like to thank you for selecting our firm for your tax and accounting needs. We appreciate the confidence you have shown in us, and we remain ready to assist you at any time. Also, thank you for recommending us to your family, friends, and associates. We truly appreciate your referrals.

Tax filing reminders

June 15 – The second installment of 2018 individual estimated tax is due.

It's tax-planning time

Now is the ideal time to schedule a tax-planning session. Your tax return outcome is still fresh, and it's early enough in the year to make corrective action to take advantage of the numerous new tax law changes taking place in 2018. Here's a brief overview of some of the new tax issues that you need to plan for now.

#1 Income

Tax rates for both individuals and small businesses have changed substantially. Income tax deductions have also changed drastically, including a near doubling of the standard deduction and the elimination of most personal exemptions and miscellaneous itemized deductions.

- *You need to review your income tax withholding schedule and see where you fall in the new income tax bracket structure. Small adjustments here could save you hundreds.*

#2 Bunching

Because of the changes to the deductions structure, using itemized deductions may entail bunching two or even three years of expenses into one tax year. Things like donations to charity and medical expenses that you may have spread across several years are now better bunched into a single year to maximize your tax savings.

- *If you typically take care of medical expenses or charitable donations at a regular time every year, stop until you have a new tax-efficient plan. If you wish to consider a bunching approach to itemizing, you'll want to make that decision as early in the year as possible.*

#3 SALT (State and local taxes)

There's now a \$10,000 combined total cap on deductions of state and local income, sales and property taxes, which is going to impact a lot of people, especially in high-tax states. This may be a big factor to account for if you've relied on this deduction in the past.

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It's tax-planning time (Cont'd)

- *Get an analysis done to see how much larger your tax bill is going to be because of the cap on SALT taxes. There may not be much you can do about it other than changing where you live and own property, but you'll need to have a clear picture of how it will impact your tax return in 2018.*

#4 Mortgage interest changes

There are several new rules changing how mortgage interest is deducted. You can now no longer deduct the interest cost on mortgage indebtedness greater than \$750,000. And you can no longer deduct interest on mortgage indebtedness that wasn't spent directly on buying, building or substantially improving your home.

- *If you have used a home equity loan interest deduction, you'll need to review how this will impact your itemized deductions.*

These are just a few examples of things that you'll need to review in the wake of the largest tax law changes in more than 30 years. Take some time this summer to make sure you have a plan in place.

The new small business family medical leave credit

There's a new business tax credit that partially reimburses employers for providing paid family and medical leave for select employees. But small businesses should be informed before they try to use this new Family and Medical Leave Act (FMLA) tax break.

Basics of the new credit

Employers who provide at least two weeks of paid family and medical leave to employees who earn \$72,000 a year or less can claim the FMLA credit to offset some of the cost of that paid leave. Some details:

- The credit ranges between 12.5 percent to 25 percent of the cost of the leave, depending on whether it pays 50 percent salary to a full salary.
- At least 50 percent of salary must be paid during the leave for employers to claim the credit.
- Employees must have worked for at least a year.
- Up to 12 weeks of leave are eligible for the credit.
- The \$72,000 salary cap in 2018 will rise with inflation every year.

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The new small business family medical leave credit (Cont'd)

This credit comes as the result of a law requiring companies with 50 or more employees to provide up to 12 weeks of leave every year. The leave is intended to give employees time to address serious health issues, adapt to new additions to their families from births or adoptions, and to handle family military deployments.

However, small businesses with less than 50 employees aren't covered by the FMLA, though they can voluntarily adopt a leave policy as an employee benefit and claim the new credit.

Considerations for small business owners

If you're a small business owner and you're considering providing a leave benefit and claiming the FMLA credit, there are several items to think about:

- **The credit currently expires after the 2019 tax year.** Congress' intention is to test adoption of the credit and later make it permanent if it's popular with employers.
- **It requires administrative setup.** You'll have to draft a leave policy separate from your policies for regular vacation, personal, medical and sick time off.
- **It may create an employee expectation.** If you haven't provided a paid leave benefit before but assess it's worth it due to the credit, it may be a letdown if the credit expires and you no longer offer the benefit to your employees.

Given the uncertain nature of the life of this new credit, if you plan to offer this benefit to your employees, please be prepared to know what you will do if the credit is not extended past next year.

6 tax benefits of owning a home

If you own or are considering owning a home, you can take advantage of many tax benefits. Here are six of the most commonly used homeowner's tax breaks:

1. **Mortgage interest deduction.** You can deduct the interest you pay on your monthly mortgage bill when you itemize deductions on your tax return. This can be a huge benefit, especially in the early years of a mortgage. That's because typically about 80 percent of your mortgage bill in your first year of home ownership on a 30-year mortgage goes toward interest. Principal payments don't exceed interest until year 18 of your mortgage.

Note: This benefit is capped to apply to \$750,000 in indebtedness for new loans taken in 2018 (\$1 million for loans taken out in 2017 or earlier).

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6 tax benefits of owning a home (Cont'd)

2. **Property tax deductions.** You can deduct up to \$10,000 in combined state and local taxes. Called the SALT deduction, this can be used to deduct local property taxes, state taxes, local income taxes and sales taxes.
3. **Closing cost deductions.** You can deduct the closing costs of a home purchase in the year you buy it. This includes things like mortgage discount points you pay upfront to lower your interest rate over the life of your loan. Because each point costs 1 percent of your total mortgage amount, the tax deduction on these costs can be substantial.
4. **Home improvement tax breaks.** If you take out a second mortgage or what is commonly called a home equity mortgage and use it to buy, build or substantially improve your home, you can deduct the interest on that loan from your taxes. This feature is now grouped into your total mortgage indebtedness, which is capped at \$750,000.

***Caution:** Interest on home equity loans used for any other means (e.g., to pay down credit card debt or to purchase a car) is no longer deductible.*

5. **Energy efficiency tax breaks.** There are special tax breaks available for renewable energy and energy-efficiency upgrades to your house:
 - a. The cost to buy and install solar, wind and geothermal equipment to your main residence or a second home can be deducted by 30 percent.
 - b. Energy-efficient upgrades can be deducted by 100 percent for items such as central air conditioning, furnaces and water heaters, capped at a total of \$500.
6. **Capital gains exclusion.** You have the ability to exclude up to \$250,000 of profits (or \$500,000 if you are married) from the sale of your home, as long as it's your primary residence and you've lived there at least two years.

Remember, if you're thinking of buying a home, you may want to make a tax review part of your preparation. Because the tax deductions on mortgage interest and points can be so substantial in the early years of home ownership, they may factor in to how much you can afford.

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