WANT TO KEEP MORE OF YOUR MONEY?

Effective financial planning is all about knowing how your income will be taxed, and understanding what moves will help you keep as much money as possible.

The true value of your estate, investments and other assets can be greatly affected by your marginal income tax rate. Simply speaking, the marginal rate is the rate applied to the last dollar you earn. Said another way, the U.S. tax system is progressive, meaning your last dollar of income may be taxed at a dramatically higher rate than your first dollar.

Here's an example of how the marginal tax rate works:

John and Jane are married. Together, their taxable income is $330,000. A large portion of their income will be taxed at 24 percent or less, but the last $14,999 will be taxed at 32 percent in 2018. That's because the last part of their income crosses the threshold into a different tax bracket.

So when they earn more, more of their income gets pushed into a higher tax bracket. The higher marginal rate on the last portion of their income raises their effective tax rate – the rate John and Jane actually pay on all their taxable income.

Keep in mind that deductions reduce taxable income as well, but they often phase out as income rises. Even the alternative minimum tax (AMT) can come into play. All this means more of your income may be taxed at a higher rate.

HOW TO PRESERVE MORE USING SMART TAX RATE STRATEGIES

Fortunately, there are strategies you can take advantage of to have more of your income taxed at a lower rate (i.e., you keep more of your money). Consider these options:

- Contribute to a retirement account. For 2018, you can contribute up to $5,500 to a traditional IRA and $18,500 to an employer-sponsored retirement plan, such as a 401(k), 403(b) or 457. If you are 50 or older you can contribute even more.
- Contribute to a health savings account (HSA). Individuals can contribute up to $3,450 and families can contribute up to $6,900 to an HSA in 2018.
- Shift deductions/postpone income. You may be able to move deductions into 2018 or postpone income until 2019 to reduce taxable income by:

* Making next year's charitable contributions this year
* Prepaying deductible expenses this year versus next year
* Paying college tuition in December
* Delaying bonuses or the exercise of incentive stock options

By using some of these strategies in the previous example, John and Jane can reduce or even eliminate the $14,999 of their income exposed to the higher 32 percent tax rate.

Understanding how marginal tax rates treat your next dollar of income is an important first step to lower your tax bill. Give us a call if you'd like help creating a money-saving strategy.

GET IN TOUCH

Address

277 Highway 74 North
Suite 205
Peachtree City, GA 30269

Contact info

Phone: 770-487-9166

Email For Appointments or Organizers:
Linda@ironstonetax.com

web Info

www.ironstonetax.com

ironstone
Accounting • Tax

Phone: 770-487-9166 | Website-www.ironstonetax.com

ARE YOU READY FOR **THE 2018 TAX ACT CHANGES?**

Dear clients and friends,

One minute tax reform was like a mirage, and the next minute it came rushing into focus as Congress passed a new tax act with roadrunner speed. Fortunately, you don't have to wait for the dust to settle to start preparing for the year ahead.

A new year with the most sweeping tax reform in three decades calls for a fresh start. That means building the most effective 2018 tax plan from the ground up. Starting with the essentials, we can help you create a customized tax strategy that will put you in the best position possible by year-end. This includes time-tested moves, plus new approaches to respond to the new legislation.

This New Year Letter has been sent to you as a reminder of our commitment to help you minimize taxes. The earlier you start to plan, the more effective your efforts are likely to be. Give us a call if you'd like to develop your 2018 tax strategy, and learn about the tax benefits available to you throughout the year.

Major tax law changes are capturing the headlines lately, and with good reason. Early proposals from the House and Senate varied widely but were reconciled in December 2017. Soon after, the Tax Cuts and Jobs Act was signed into law. There's only one thing left for you to do now: start preparing for 2018 and beyond.

Be proactive: Understand the upcoming tax changes

There's a pretty good chance you'll be affected by more than one change to come out of this new act. To help you get a better understanding of what major areas of the tax code have been altered, consider the following:

Individual tax rate brackets

Status: The new act retains seven brackets, but at reduced rates: 10, 12, 22, 24, 32, 35 and 37 percent. The individual income brackets are also expanded to expose more income to lower rates. And the marriage penalty is eliminated for all except the highest earners who are in the top two brackets. The income thresholds for singles are exactly half of thresholds for married couples.

What that means: It's important to understand the concept of marginal tax and try to manage your income to be tax-efficient. Remember, our progressive tax system still means your first dollar of income may be taxed at a lower rate than your last dollar of income. So with lower rates and expanded brackets, more of your income may fall into a lower tax bracket. You may need to adjust your federal tax withholding with your employer to keep more of your money throughout the year. This is usually a better alternative than receiving a large refund from your tax return.

Deductions

Status: Some deductions are expanded and many are eliminated. For instance, the standard deduction nearly doubled for taxpayers and the personal exemption was eliminated. To help cover the cost of this lost revenue, the act makes significant changes to itemized deductions.

State and local tax deductions are limited to $10,000 total for all property, income and sales taxes. And mortgage interest will be deductible only for new acquisition indebtedness of no more than $750,000 (existing homeowners are unaffected by the cap). Home equity loan interest is eliminated, casualty theft losses are curtailed and many miscellaneous deductions are no longer available.

What that means: While changes to itemized deductions could mean you no longer need to keep track of as many expenses, do not stop collecting receipts. Even if the federal government canceled some deductions, the states may keep or add similar deductions in their tax laws.

Pass-through entity tax rates

Status: The new act reduces the taxable income of pass-through entities. This includes owners of entities such as S corporations, partnerships and sole proprietorships. Most will see their income tax lowered with a new 20 percent income reduction calculation.

What that means: If you own a business, your income tax could decrease in 2018. After a review, you may consider switching business structures to benefit from the new tax rules. It's critical to understand these changes and what constitutes your business income (with or without wages) to choose the best tax treatment for your business.

Estate tax

Status: The new act doubles the estate tax exemption, from $5.6 million per individual to $11.2 million. Estate taxes will apply to even fewer people now.

What that means: Your estate may be able to avoid being taxed under the new act. It also offers opportunities to adjust your estate and wealth transfer strategies. But be careful, state estate tax rules are not impacted by this change.

This is only a small snapshot of the many changes in the new act. Give us a call and we can help make sure you're in the most effective tax position for your situation.

6 TAX REMINDERS

1. Circle April 17 on your 2018 calendar. It's the deadline for filing your 2017 individual income tax return, for filing 2017 gift tax returns, for making contributions to either a Roth or traditional IRA for 2017 and for paying the first installment of 2018 individual estimated taxes.

2. Collect what you need to file your 2017 tax return. Items include W-2s, 1099s and other forms you receive from your employers, brokers, banks and others. If you detect any errors, contact the sender immediately to request a corrected copy.

3. File business returns on time. The deadline for filing partnership and S corporation returns is March 15. Calendar-year C corporation tax returns are due by April 17. Six-month extensions can be requested for partnerships and corporations.

4. Need more time to file your return? If you can't file your 2017 return on time, be sure to file an extension request with the IRS by April 17. You must pay taxes due by this deadline to avoid penalties and interest charges, but an extension gives you until October 15 to file your return.

5. Schedule a business review. If you own a business, a thorough business and tax review in 2018 may reveal tax-cutting opportunities and other steps you can take to operate your business more profitably.

6. Check your 2018 withholding early this year. Make sure you have the right amount withheld from your paycheck this year. Now is the time to ensure your withholdings will meet minimum tax payment requirements, but don't over-withhold or you'll be giving the IRS interest-free use of your money for a year.

WHAT'S NEW IN 2018

PROVISION	2018	2017
Personal exemption	Suspended through 2025	$4,050
Standard deduction		
• Single	$12,000	$6,350
• Joint returns and surviving spouses	$24,000	$12,700
• Married filing separately	$12,000	$6,350
• Head of household	$18,000	$9,350
• Additional for elderly or blind (married)	$1,300	$1,250
• Additional for elderly or blind (single)	$1,600	$1,550
Income at which itemized deductions and personal exemptions start to phase out		
• Single	Not applicable	$261,500
• Joint returns and surviving spouses	Not applicable	$313,800
• Married filing separately	Not applicable	$156,900
• Head of household	Not applicable	$287,650
Alternative minimum tax exemption		
• Single	$70,300	$54,300
• Married, joint	$109,400	$84,500
• Married, separate	$54,700	$42,250
Social Security earnings limit		
• Under full retirement age	$17,040	$16,920
• Full retirement age	No limit	No limit
• Maximum wages subject to Social Security tax	$128,400	$127,200
Estate tax top rate	40%	40%
Estate tax exclusion	$11,200,000	$5,490,000
Annual gift tax exclusion (per donee)	$15,000	$14,000
Contribution limit		
• HSA for single	$3,450	$3,400
• HSA for family	$6,900	$6,750
• HSA additional for 55 or older	$1,000	$1,000
• IRA for those under age 50	$5,500	$5,500
• IRA for those 50 and over	$6,500	$6,500
• SIMPLE plan for those under age 50	$12,500	$12,500
• SIMPLE plan for those 50 and over	$15,500	$15,500
• 401(k) plan for those under age 50	$18,500	$18,000
• 401(k) plan for those 50 and over	$24,500	$24,000
"Kiddie tax" threshold	Not applicable*	$2,100
"Nanny tax" threshold	$2,100	$2,000

*Starting in 2018, this income to be subject to trust and estate tax rates.

As you do your planning for 2018, be aware that Congress may make changes to the tax code. See us prior to making major business and personal financial decisions so that current rules and pending changes can be considered.