



FISCHER'S INCOME TAX SERVICE

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2018 Year-End Tax Update



The rules for preparing 2018 taxes are significantly different from last year. We discussed many of the changes when we prepared your 2017 taxes. The major changes affecting all taxpayers are lower tax brackets, the elimination of personal exemptions, increased standard deductions, and limits on some itemized deductions and elimination of others. To offset the elimination of personal exemptions for dependents, the child tax credit has been doubled and a new credit is available for dependents over age 16 who do not qualify for the child tax credit. Most taxpayers will have lower taxes. However due to revised withholding tables which resulted in less withholding throughout the year (and bigger paychecks during the year), many will see smaller refunds or possibly a balance due. Another major change is the revised Form 1040. The tax return is now a half-page form with several optional schedules, depending on the needs of the taxpayer.

The **Standard Deduction** has been significantly increased (\$24,000 for married couples, \$18,000 for heads of household, and \$12,000 for single or married filing separately taxpayers). Many miscellaneous itemized deductions such as unreimbursed employee expenses and brokerage fees have also been eliminated. The result is many taxpayers won't have enough deductible expenses to itemize.

Interest on home loans used for anything other than to buy, build, or improve your home are no longer deductible. This includes home equity loans or HELOCS.

Security and Identity Theft

The IRS has determined that one of the prime targets of data theft is tax preparation companies. This year we attended courses designed to improve the protection of our firm and your confidential data. Because so many electronic intruders can get your personal information from email and standard email attachments we strongly recommend that information be sent to us either via surface mail (US Postal Service), dropped-off at our office, faxed (910-867-1757), uploaded to our web portal, or sent through our secure web site. When combined with our latest security software and other steps it is extremely difficult for electronic intruders to get through our defenses. We know that not using standard email to send us your information will cause some hassle on your (and our) part but it is the best way to protect your and our confidentiality.

Increased "Due Diligence"

We, as paid tax preparers, are required to determine if someone is eligible for certain tax credits. The IRS has increased our "due diligence" requirements when a taxpayer has either an Earned Income Tax Credit, Child Tax Credit, American Opportunity Tax Credit (education credit), or claims Head of Household filing status. Please don't be offended if we ask probing questions or request documentation to see if you qualify for one of these credits. We can be fined \$512 per credit for not ascertaining eligibility requirements.

Delayed Refunds

The **PATH Act** requires the IRS to hold refunds until mid-February for people claiming the Earned Income Tax Credit or the Additional Child Tax Credit. The IRS must hold the entire refund — even the portion not associated with these credits — until at least Feb. 15. This helps ensure that taxpayers get the refund they are owed by giving the agency more time to help detect and prevent fraud. The IRS always cautions taxpayers not to rely on getting a refund by a certain date, especially when making major purchases or paying bills. The IRS issues more than nine out of 10 refunds in less than 21 days. In addition, new identity theft and refund fraud safeguards put in place by the IRS and the states may mean some tax returns and refunds face additional review.

Affordable Care Act

Contrary to popular belief you must still have qualified health insurance for all family members in 2018 or pay a penalty. Many Americans are joining “Health care sharing ministries” for health insurance, but there is no tax deduction allowed with these types of plans, even though they keep you from paying a penalty for not having insurance. ***If you received a Form 1095 from any issuer or agency we MUST have all copies to prepare your tax return.***

Foreign Accounts

The IRS is looking closely for offshore accounts. If you have a bank account, retirement account, or business interest with a **value over \$10,000 at any time during the year** in a foreign country, or a foreign business ownership (not through a mutual fund), please let us know as some special rules will apply to you. There are substantial penalties for failure to disclose these items.

Charity

ALL deductions of any amount must have a receipt. Any individual contribution over \$250 must also have an acknowledgement letter from the charity, and the letter must be dated by the date we file your return. The letter should show the date and amount of any individual contribution over \$250 and should also state that no goods or services were received in return for the contribution.

If you donate used clothing or household goods and need help determining the fair market value of the items, the Salvation Army has a useful Donation Value Guide on their website <https://satruck.org/Home/DonationValueGuide>. We also recommend keeping a detailed list of all used clothing and household goods donations with associated values in the event your charitable contributions are audited by the IRS.

Mortgage Interest

New rules have changed home mortgage interest deductions. So for any refinancing, equity line draws or new loans we must know if the money was spent to buy, build, or improve your personal residence or used for other purposes as only the interest on amounts used to buy, build, or improve your home are now deductible. We also must obtain Form 1098 from you when you pay mortgage interest. Additionally, we must obtain refinancing closing statements.

Roth IRA Conversions

You will continue to hear from lots of “experts” this year that you need to convert your retirement accounts to Roth IRAs. While there are a number of advantages to conversions, there are an equal number of disadvantages that carry some major tax consequences. Also, if your ROTH account loses value after the conversion you can no longer “reconvert” the amount back to your original IRA. Please do not convert your accounts in 2018 without coming in to see us for an appointment to discuss both the positives and negatives. ***All conversions for 2018 must be completed by December 31, 2018.***

Required IRA Distributions

If you are over 70½ years old, don't forget to take your required minimum distribution (RMD) for 2017 from your retirement account. There is a 50% penalty for failure to take the RMD. Distributions from retirement accounts can also be directly deposited to charities, reducing your total income. These deposits must be completed by December 31. Call us if you have any questions.

Education Credits

You must have Form 1098-T to claim the American Opportunity Credit or Lifetime Learning Credit, credits for college tuition and books. If you or your child have not received Form 1098-T by the end of January, contact the school as it may be available only in an on-line format. For 2018 tax returns, you cannot claim a credit without this form.

Business Mileage Records

If you have a small business, farm, or rental property a deduction for business use of personal vehicles is allowed, however the IRS requires adequate records, such as a mileage log, to substantiate business use. Due to **preparer penalties** of up to **\$5,000.00** for understatement of tax liability, we will require all clients who claim business mileage to certify that they have adequate records. **If you cannot substantiate your vehicle business use, we may not be able to claim business mileage on your tax return.** A deduction for use of your vehicle as an employee is no longer available.

IRS Contacts and Tax Scams

If the Internal Revenue Service wants to contact you, they will **ONLY** do so by a letter delivered by the U.S. Postal Service. If you receive an e-mail or telephone call from someone claiming to be with the IRS it is a scam. Phone calls may threaten a lawsuit or demand immediate payment through Western Union or by a prepaid debit card (we received two such calls in one day). Do not be fooled! Delete the e-mail or hang up the phone. Never click on any links in an e-mail or divulge any personal information to one of these scammers, no matter how official the request may seem.

If the IRS does send you a letter, let us know immediately so we can help you determine if the request is valid and help compose a response, if needed.

Since the IRS will only contact you by mail, they must have your current mailing address. If you have a different mailing address than the one used on your last tax return, notify the IRS by submitting IRS Form 8822. The form and instructions are available at your local IRS office or on the internet at <https://www.irs.gov/pub/irs-pdf/f8822.pdf>. If you need assistance, please contact us.

Gifts

When you give someone other than a charity more than \$15,000 in a calendar year a Gift Tax return is required. All gifts given to an individual during the year are added together to see if the \$15,000 threshold has been met. Even though no tax is paid with the Gift Tax return, you are still required to report the gift(s) to the IRS.

In Closing

If you receive a Form 1099-K, please be sure to bring it to us. It may have a direct impact on your return.

Engagement Letter. We will again require all clients to agree with our Engagement Letter (letter of understanding) prior to preparing tax returns. The Engagement Letter explains what we will do for you and what you must do for us so we can properly prepare your return.

Document Scanning. Please bring all of your mortgage statements, brokerage statements, interest statements, and any other statement needed to prepare your tax return. We will scan these documents and keep them in your file. If you ever get a notice from the IRS, we will have the information on-hand to verify your tax return entries. The IRS now requires us to keep copies of certain documents. **Please bring any letters or notices you received from the IRS or state Department of Revenue during the year if you haven't previously contacted us about them.**

Payment for Services. To keep our costs and prices as low as possible **we accept only personal checks, money orders, or cash** for our services. Due to increased costs for software, supplies, and required education, some of our fees will increase. **We do not accept debit or credit cards. Please remember that Payment is due when you receive your return.**

Records Retention Policy. We will maintain file copies of tax returns we prepare for a period of at least six (6) years. After six years, our file copies may be destroyed.

Call When You Need Help! Remember, we are available throughout the year. Any time you receive a notice or letter from the IRS or State Department of Revenue, please bring, mail, or fax us a copy as soon as possible. We can only help you when we know about the notice or letter.

Schedule Your Tax Preparation Appointment Early! There are many changes, extensions and deletions that we will consider this year while preparing your return. Because of these changes, we are requesting everyone to try to have their tax information in to us at least two weeks earlier than normal, and no later than March 31, 2019. Returns we prepare after March 31 are subject to a \$25 surcharge.

Please rest assured that we will utilize our best resources to once again provide you with timely, complete and accurate service while keeping your tax burden to the lowest legal amount.

Thank you again for your continued support.

Season's Greetings to you and your family during this holiday period.

Best wishes for a happy and prosperous 2019!

Inge & Bill Fischer