



Online Advisor

- JANUARY 2018 -

HAPPY 2018

MAJOR UPCOMING TAX DEADLINES

JANUARY 16-

- Due date for the fourth installment of 2017 individual estimated tax.

JANUARY 31-

- Due date for employers to furnish W-2 statements to employees, and to file Forms W-2 with the Social Security Administration (both paper and electronic forms).
- Due date for payers to provide most Forms 1099-MISC with non-employee compensation in box

7 to recipients and to the IRS.

• Employers must file

Greetings!

As we prepare for another tax-season, we would like to take this opportunity to wish you a very happy and prosperous 2018. Please gather your documents and make your tax-planning appointment early! This newsletter is filled with helpful tips which will assist you, but as always, we encourage you to call our office to set up an appointment to discuss your finances and tax-planning.

We are looking for more good clients, and since we are expanding, we would appreciate your referrals!

Forward this email to friends and family; it entitles them to a complimentary consultation.

The partners and staff of Couto DeFranco, P.A.

TAX GUIDE ONLINE 2017-2018 Tax Planning Guide

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LOOKING AHEAD: TAX REFORM IN 2018

 Congress has passed tax reform that will take effect

- Employers must file 2017 federal unemployment tax returns and pay any tax due.
- Due date for providers to send Forms 1095 to recipients and the IRS.



Congress has passed tax reform that will take effect in 2018, ushering in some of the most significant tax changes in three decades. Here are some of the most significant items in the new bill that impact individual taxpayers.

Reduction of income tax brackets. The bill retains seven brackets, but at reduced rates, with the highest tax bracket dropping to 37 percent from 39.6 percent.

- **Double standard deductions.** The standard deduction nearly doubles to \$12,000 for single filers and \$24,000 for married filing jointly. To help cover the cost, personal exemptions and most additional standard deductions are suspended.
- **Limits itemized deductions.** Many itemized deductions are no longer available, or are now limited. Here are some of the major examples:
 - **Caps state and local tax deductions.** State and local tax deductions are limited to \$10,000 total for all property, income and sales taxes.
 - **Caps mortgage interest deductions.** For new acquisition indebtedness, mortgage interest will be deductible on indebtedness of no more than \$750,000. Existing mortgages are unaffected by the new cap as the new limits go into place for acquisition indebtedness after Dec. 14, 2017. The act also suspends the deductibility of interest on home equity debt.
 - **Limit on theft and casualty losses.** Now only available for federally declared disaster areas.
- **No more 2 percent miscellaneous deductions.** Most miscellaneous deductions subject to the 2 percent of adjusted gross income threshold are now gone.
- **Cuts some above-the-line deductions.** Moving expense deductions get eliminated except for active-duty military personnel, along with alimony deductions beginning in 2019.
- **Weakens the alternative minimum tax (AMT).** The bill retains the alternative minimum tax but changes the exemption to \$109,400 for joint filers and the phaseout threshold to \$1 million. The changes mean the AMT will affect far fewer people than before.
- **Bumps up child tax credit, adds family tax credit.** The child tax credit increases to \$2,000 from \$1,000, with \$1,400 of it being refundable even if no tax is owed. The phaseout threshold increases sharply to \$400,000 from \$110,000 for joint filers, making it available to more taxpayers. Also, dependents ineligible for the child tax credit can qualify for a new \$500-per-person family tax credit.
- **Expands use of 529 education savings plans.** Qualified distributions from 529 education savings plans, which are not subject to tax, now include tuition payments for students in K-12 private schools.
- **Doubles estate tax exemption.** Estate taxes will apply to fewer people, with the exemption doubled to \$11.2 million (\$22.4 million for a married couple).
- **Reduces pass-through business taxes.** Most owners of pass-through entities such as S corporations, partnerships and sole proprietorships will see their income tax lowered with a new 20 percent income reduction calculation.



NEW YEAR'S RESOLUTIONS ARE NOT SUSTAINABLE- *Do this instead*

If you're like most people, you've adopted a set of New Year's resolutions for 2018. Things like losing weight, quitting smoking or drinking, saving a certain amount of money and finding a new job are among the most common resolutions. Also, if you're like most people, you won't keep them. Sociological research has shown only about 10 percent of resolutions are maintained more than a few months.

Rather than setting resolutions for yourself this year, try this approach instead: adopt new habits

Several self-help gurus including Stephen Covey, author of "7 Habits of Highly Successful People," and Scott Adams, author of, "How to Fail at Almost

How to Part at Almost Everything and Still Win Big" have emphasized a habit-based approach to self-improvement

Here's why habits can be more useful than resolutions:

1. Habits get to the heart of the matter.

By focusing on habits, you are encouraged to address the root of a problem and the behaviors that cause it. If you want to lose weight, by focusing on your habits you will inevitably have to address how you eat and how you exercise. Addressing these root causes of weight gain brings you the benefit of better health long after you meet a specific weight goal.

Resolutions, on the other hand, are focused on end points, and encourage short cuts. If all that matters is losing weight, you may try to get to your ideal weight as soon as possible by using drugs or fad diets that are unlikely to work long-term.

2. Habits avoid the feeling of failure.

Resolutions often drift into obscurity because you feel like a failure when the goals are unmet. Any setbacks or backsliding along the way are devastating, because you are that much further away from meeting your goal.

As soon as you practice a habit you feel like a winner. By eating a salad as part of a healthy eating habit, you get a positive feeling of achievement: "I'm doing something that's good for me right now." If you were

Because major tax reform like this happens so seldom, it's worth scheduling a tax-planning consultation early in the year to ensure you reap the most tax savings possible during 2018.

THE BEST WAY TO AVOID AN AUDIT: PREPARATION



Getting audited by the IRS is no fun. Some taxpayers are selected for random audits every year, but the chances of that happening to you are very small. You are much more likely to fall under the IRS's gaze if you make one of several common mistakes.

That means your best chance of avoiding an audit is by doing things right *before* you file your return this year.

Here are some suggestions:

Don't leave anything out. Missing or incomplete information on your return will trigger an audit letter automatically, since the IRS gets copies of the same tax forms (such as W-2s and 1099s) that you do.

Double-check your numbers. Bad math will get you audited. People often make calculation errors when they do their returns, especially if they do them without assistance. In 2016, the IRS sent out more than 1.6 million examination letters correcting math errors. The most frequent errors occurred in people's calculation of their amount of tax due, as well as the number of exemptions and deductions they claimed.

Don't stand out. The IRS takes a closer look at business expenses, charitable donations, and high-value itemized deductions. IRS computers reference statistical data on which amounts of these items are typical for various professions and income levels. If what you are claiming is significantly different from what is typical, it may be flagged for review.

Have your documentation in order. Keep your records in order by being meticulous about your recordkeeping. Items that will support the tax breaks you take include: cancelled checks, receipts, credit card and investment statements, logs for mileage and business meals, and proof of charitable donations. With proper documentation, a correspondence letter from the IRS inquiring about a particular deduction can be quickly resolved before it turns into a full-blown audit.

Remember, the average person has a less than 1 percent chance of being audited. If you prepare now, you can narrow your audit chances even further and rest easy after you've filed.

COMMON RENTAL INCOME MISTAKES

If you own rental property there are a number of mistakes you should avoid. Here are some major ones:

1. Forgetting the 14-day rule. As long as you rent out your property for a period of 14 days or less per year, you do not have to report rental income or otherwise treat rental activities as a business for tax purposes. But if you go over that 14-day limit—even for a minute—you will have



right now. If you were focused on a weight loss resolution, eating a salad seems like a futile gesture: "I'm still ten pounds from my weight loss goal. How long do I have to keep eating like this?"

3. Habits avoid the letdown of success.

Strange as it may sound, achieving a resolution can be just as harmful as not achieving it. If you're one of the 10 percent of people who achieve a resolution, you might be surprised that you feel let down afterwards. "Is that it? Is that all I've been working for?"

This famously happened to Alexander the Great, who set out to conquer the entire known world of the classical era. When he'd beaten everyone, Alexander supposedly "wept, for there were no more worlds to conquer."

With a focus on habits, you no longer get hung up on the goal line. Why not consider changing a habit or two? Perhaps the true feeling of success is practicing a positive habit over and over again, with no end in sight to the satisfaction it brings.

to pay tax on the rental income. With the popularity of rental services like Airbnb, this mistake is happening more often than not.

2. Mixing personal and rental business assets. If you rent more than 14 days a year, treat your rental activity as a business. Consider owning the property in a limited liability company and create a separate bank account for the rental property to keep your business income and expenses separate from your personal finances. If you don't do this, you're making it harder to report your net rental income every year on Schedule E.

3. Getting fooled by the calendar. Rental payments are taxable in the month they are received, not during the month they are applied to the rental balance. This means that if you receive January 2018 rent in December 2017 that income is taxable in 2017, not 2018.

4. Counting the security deposit. Often a renter will give the landlord a security deposit and a rent payment. The security deposit is not considered income if it is returned to the renter at the end of the lease.

5. Overlooking depreciation rules. You can depreciate residential real estate over 27.5 years, but remember to separate the cost of the land from the property value, as land is not depreciable. Also, depreciation that you could take but *didn't* for whatever reason is "allowable depreciation." When you sell the property you must reduce the basis by the amount of the allowable depreciation, which increases your taxable gain.

6. Failing to consider the risks. Owning rental property comes with risk. You may lose a tenant and the property may sit vacant, not earning income. If your lender forecloses on your rental property and the proceeds do not cover the mortgage, they may come after your other assets, including your personal residence!

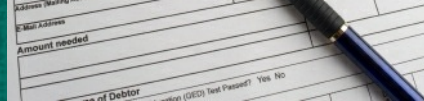
While renting property can provide a lucrative income stream, there are many complicated rules to follow and mistakes to avoid. Reach out for a consultation to discuss your rental income strategy.

WHERE DID MY RETIREMENT GO?

How to locate lost retirement benefits

SOCIAL SECURITY ALSO GETS A BOOST IN 2018





The federal retirement safety net system, Social Security, also gets a boost during 2018. The average estimated monthly benefit paid to retirees in 2018 will be \$1,404 in 2018, up from \$1,377 in 2017. The maximum amount of wages subject to Social Security taxes rises to \$128,700 in 2018, up \$1,500.

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For one reason or another, you may find yourself in a situation where you've lost track of a retirement account like a 401(k) or pension.

There are several ways this can happen:

- **Job change.** People change jobs in today's economy much faster than they did in the past, and that means that retirement accounts like 401(k)s or pensions from a brief job tenure may easily be forgotten.
- **A death in the family.** Deceased loved ones may have overlooked some retirement assets in their wills, especially if they didn't organize their estate well before they died.
- **Lost access.** Records or access to retirement accounts may be compromised by accidents, theft or data losses.

Luckily, there are several handy but little-known ways to retrieve retirement account information:

1. **Contact employers.** Getting in touch with employers who administered a 401(k) or pension plan is one of the easiest ways to retrieve lost retirement benefits. If the account was active from 2009 or later, you can search the Department of Labor's Form 5500 database (www.efast.dol.gov/portal/app/disseminatePublic), which collects the annual information submitted by plan administrators. Often the exact person you would need to get in touch with is listed on the form.
2. **Use the National Registry of Unclaimed Retirement Benefits.** The registry is created by a nonprofit organization that offers a free service to link up employees with their lost retirement benefits. Visit the National Registry of Unclaimed Retirement Benefits website (www.unclaimedretirementbenefits.com) and enter the Social Security number of the employee. It will locate any unclaimed accounts and then provide information about getting in contact with the employer maintaining them. Note that accounts will only appear as unclaimed if the employee's mailing address is out of date, or if the employee didn't respond to the employer's attempts to pay out the account.
3. **Check the Pension Benefit Guarantee Corporation (PBGC).** The PBGC is a government agency that insures and tracks company pensions, and it keeps a list of unclaimed pensions on its website (www.pbgc.gov/search/unclaimed-pensions). You can search a person's name or the name of the company. Note that pensions will continue to exist at the PBGC even if the company that provided it no longer exists.

Once you've located a lost retirement account, you can roll it over into an IRA if it's yours, or you can take several approaches if it is an inherited asset. Reach out if you'd like to discuss your options regarding tax-advantaged retirement accounts.

We hope you found this information helpful. Call today to schedule your appointment to start getting into financial shape!

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EXCITING COUTO DEFRANCO NEWS: We've been recognized as "Top Wealth Managers in NJ"

5th Year in a Row!!



Nelson Couto and Anthony DeFranco honored with a recognition by **NJ Monthly Magazine** in its selection of **"Top Wealth Managers In NJ 2018"**

Nelson Couto, CPA, CFP® and Anthony DeFranco, CPA, CFP®, MS (Taxation) of Couto DeFranco, P.A. have been named as 2018 Five Star Wealth Managers and featured in New Jersey Monthly magazine January 2018. Out of the 5063 wealth managers in New Jersey who were seriously considered for the award, 672 were named. This is their fifth time winning this prestigious award.

"We are delighted to be acknowledged as a Five Star Wealth Manager by New Jersey Monthly," says Nelson Couto. "We are proud that the work we have done for our clients has been recognized," says Anthony DeFranco.

Couto and DeFranco are recognized as leaders in the field of wealth management. They combine their knowledge of financial planning with over 25 years as CPAs, helping their clients with their wealth management and tax planning needs, along with assisting them with their financial goals and aspirations.

They believe the best way to help clients reach their financial goals is simple: to listen. "It is important to listen to where they are today and where they want to be tomorrow," says Nelson Couto. The partners feel that clients are paying them for

their knowledge-both as NJ Certified Public Accountants and as Certified Financial Planner™ professionals-so it is their responsibility to develop a financial plan that is sound, objective and honest. This model has been their secret to success.

Starting a business? Tax Questions? Need Financial Planning?

Print out this certificate for a complimentary one-hour consultation.

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