The Rudolph Report

www.rudolphcpa.com Opening Day 2018

To all our clients:

After a terrific and exhausting tax season, we have a few words for you: gratitude, appreciation, and candy. We can't wait to serve you again next year (after we hibernate in the left field bleachers).

Our front desk appreciates the patience and kindness that you've demonstrated. Working at the front desk of a CPA firm is like being a short order cook at an all-you-can-eat Sunday special at Shoney's when all you have is one box of pancake mix and your husband's collection of My Little Ponies.

In this newsletter, we will discuss the 2018 tax changes. The most significant change could affect you right now. It involves the significant reduction in your federal withholdings that may result in a large balance due when you file your tax return.

Please reach out with an email or phone call to discuss your withholdings and tax planning for 2018. Tax deficiencies are like discovering that your dog just ate your rubber chicken-- it's best to find out soon. And if your husband thinks that he doesn't need to call us- that he can do his own tax planning- just remind him about the time that he thought he could fix the furnace with strategically placed dog biscuits.

The ivy is still covered in snow, but our Chicago National League ballclub is a contender. Life could only get better if the Cardinals relocate to Siberia.

Chris Rudolph CPA

Your paycheck

In February, employers began withholding less federal income tax. The reduction in withholding tax is about 3% of gross pay. Everybody gets a reduction in federal withholding but not everyone gets a reduction in tax liability. This can be a significant problem because you might owe the IRS all of your tax "savings" when you file your return next year. We've tried to apprise folks of this issue when we prepared your return. If we already discussed it with you, then please don't reach out. However, if we did not have the discussion, and you think you might need some planning, then please contact us soon. We'd like to see your paystubs or pension stubs in order to prepare a pro-forma return for 2018. If there is a shortfall, then you have seven months to adjust withholdings (or expectations). The withholdings and Trump tax cut are proving to not be in sync. *#NoCollusion*.

Out of ten typical people, we find six of them receive a tax cut, two have no change, two others have a tax increase, and 3.5 people are liberal arts majors who despise math.

2018 tax code clarified

$10,000 is the maximum combination of state and property taxes to deduct on your schedule A. If you have rental properties, the $10,000 cap does not apply to schedule E. It also does not apply to corporations, partnerships, or off-shore investment pools buried in the Paraguayan jungle.

The new standard deduction for married people is $24,000 and $12,000 for single folks.

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Interest on new mortgages, codified after 2017, is limited to the first $750,000 of mortgage debt. This includes home equity loans, vacation homes, and your brother-in-law's cabin in the UP with the Hillsboro Coffee can latrines near his shooting range.

Employee-related expenses are no longer deductible on schedule A. This means that if you are employed in sales, your mileage, cell phone, and home office cannot be deducted.

While employment expenses are no longer deductible, you may still deduct expenses against self-employed earnings in 2018. If you file a schedule C, there is only one change to your record keeping. Going forward, you may no longer deduct entertainment. So if you take clients to the Crusty Duck down in Cicero, you're going to have to eat it (the tax deduction, not the duck)

There is a new deduction for small businesses. It is called QBI, and it stands for 20% deduction loophole. You do not have to form an entity to get the deduction. It applies to sole proprietorships, partnerships, and S corporations. Explaining it demands about 385 paragraphs. It is allowable for married folks who make less than $315,000. If you make more than $315,000, then you might still get the deduction, but let's talk first.

Charitable contributions might not be deductible for you in 2018. Many people will take a standard deduction instead. To see if you will take a standard deduction, add up the interest on your mortgage plus a maximum of $10,000 for state and local taxes. If the result is less than the standard amounts, then you cannot deduct your charitable contributions.

If you will take a standard deduction in 2018 and still aim to get a tax benefit for charitable contributions, you might have two opportunities. First, if you are over 70 ½, you can have your IRA directly give money to your charity pre-tax. Second, you could direct your investment manager to open a donor advised fund by transferring lots of money to a charitable fund which yields a tax deduction. You can later dictate how and when the fund issues cash to the charities of your choice such as the Human Fund.

The child tax credit has been expanded to $2,000 per child, and the AGI limits have increased to $400,000 for married filers and $200,000 for non-married parents. In other words, save money by having more kids.

Heads up that most Go Fund Me appeals do not qualify for a charitable contribution. Verify that they fund a registered 501c(3) organization. Otherwise, I have two young accountants who are willing to accept your Go Fund Me contributions as they take a road trip across the USA with a two weeks supply of Cheese Whiz and tank top souvenirs from Roller Derby Night at the VFW.

Next year you could file your taxes on a postcard, presuming that the postcard is made using origami. After you fold it out, make sure you still account for all of your credits for day care, energy improvements, foreign taxes, and college tuition, then you might have to reduce the font a tad so that it can fit on a 3 x 5 index card and don't forget the stamp.

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