The Rudolph Report

www.rudolphcpa.com   Opening Day 2019

To all our clients:

After a tax season that brought a polar vortex, curious tax code changes, and an absence of free agent acquisitions, we are delighted to have made it. Our staff is grateful to you for your patience, and for clearing out that candy bowl. You're the most bestest.

We are also thankful to many of you who dropped off your documents in advance of your meeting. It helped out tremendously.

We're grateful to our interns. If you've ever called the office past 11:00 pm, you've spoken to one of them. Dan, Daniel, Oz, Luis, Doc, 'n Sneezy make this place tick. They are the reason that over 95% of returns are completed within one day. Each of them is pursuing a CPA and gaining useful experience in the process to assess a career choice. Most have moved forward in public accounting while others have wisely fled away.

In this newsletter, we will discuss disappearing refund syndrome, Obamacare, tax planning, IRA's, and the value of a middle reliever. We'll also provide guidance on Roth conversions for those that are approaching retirement.

Our office is open year round to help you with your tax planning. Our Chicago National League ballclub avoided Machado like cooties. And baseball season's under way.

Ain't life grand,

Chris Rudolph CPA

Your paycheck

Did April 15th leave you wanting to TP the post office? Some folks were really upset with the reduction of this year's refund. Here's what happened: Congress presumed that everyone was going to receive a tax cut of about 2.75% of income. They were wrong.

To be helpful (*pause for snarky looks),* Congress decided to provide you tax savings throughout the year in the form of increased paychecks by reducing the amount of federal withholding. Their premise was that everyone would get the same tax cut and that tax savings could be doled out through payroll. They may have learned their accounting principles at Trump University.

Not everybody received a tax cut of 2.75% of income. Some folks received a smaller tax cut, and some folks even received a tax increase. The result was as unpleasant as biting into a chocolate chip cookie only to find it laced with raisins and GrapeNuts.

We can revisit your withholdings for 2019. Afterwards, let's loot the village, paying homage to our ancestors who once tossed perfectly good inventory into Boston Harbor.

Obamacare

No doubt the ugliest surprises this year involved the repayment of Obamacare insurance subsidies. If you have insurance through the exchange, please let us help you calculate your projected income. We want to avoid scenarios where you will have to repay tens of thousands of dollars of subsidies that you unknowingly did not qualify for. Note: this is not a DIY project for your husband (*let him extract the dog's abscessed tooth*).

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2019 tax savings

"How do I save on taxes?" is the second most frequent question we hear after "How about another candy bar?" First, if your employer offers a health savings account, maximize that. Also maximize 401k accounts, flex spending accounts, and employer-paid mass transit opportunities. Employment-related expenses are no longer deductible, so your only recourse is to ask your employer for reimbursement. If the boss says no, and if you're a receptionist, declare each Wednesday "Work like a Mime" day.

Your IRA

IRAs are like new ice cream flavors—they market well, but will you really savor a scoop of Cherry Whitefish? To avoid indigestion, please call us before moving forward with an IRA. (*Note: we do not sell investment advice or products. We only do one thing: tax. Sorta like a middle reliever who throw 4 pitches to the lefty then retires to the clubhouse to eat a pint of Rocky Road)*. You may make too much money to receive a deduction for a traditional IRA or to fund a Roth IRA. Conversely, your income may be too low to get the benefit of funding an IRA. Some folks have tuition or adoption credits that negate the benefit of an IRA. Some folks benefit if only the spouse contributes, and some folks incur large penalties for overfunding an IRA. Navigating the right IRA vehicle is like a maze for a hamster that he unknowingly shares with a boa constrictor.

Charities strategery

If you are contributing to charities, the new higher standard deduction might negate a tax benefit. One technique to consider involves a donor advised fund. This involves prepaying multiple years' contributions into a fund rather than paying the charity directly. You'd receive a tax deduction in the year that you make the transfer. The donor advised fund is not obliged to pay the charities immediately. You can direct the fund to dole out the money to the charities over a number of years if you want to match your contributions to their operating budgets. These funds can be funded with cash, appreciated stock, or your husband's collection of vintage pantyhose.

If you are at least 70 ½ years old, you can contribute to charities directly from your IRA. In doing so, you won't have to itemize to receive a tax benefit. The result is that your IRA-funded contribution reduces your income which saves you income tax and may save you income-based Medicare premiums.

Roth Conversions

If you think you might experience an unusually low income year, talk with us about doing a Roth conversion to take advantage of the low tax rates. For future tax savings, consider a partial Roth conversion. If you have a large 401k or IRA, the account could snowball into your elderly years to where your future required minimum distributions (RMDs) will be exposed to exceptionally high tax rates. To avoid that scenario, you could convert part to a Roth IRA in earlier years, declaring the income at a lower rate and reducing the size of the snowball. Roth IRAs are forever tax free and do not have RMDs. In estate planning, they are an ideal asset for everybody involved (who is still alive).

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